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July 22, 2019

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: PA Public Utility Commission, et al. v. UGI Utilities, Inc. - Gas Division
Docket Nos. R-2018-3006814, et al.**

Dear Secretary Chiavetta:

Enclosed please find the following Statements in Support of the Joint Petition for Approval of Settlement of All Issues for filing in the above-referenced proceeding.

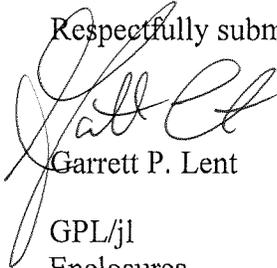
- Appendix A UGI Utilities, Inc. – Gas Division
- Appendix B Bureau of Investigation & Enforcement
- Appendix C Office of Consumer Advocate
- Appendix D Office of Small Business Advocate
- Appendix E Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania
- Appendix F Commission on Economic Opportunity
- Appendix G Direct Energy Business, LLC, Direct Energy Services, LLC and Direct Energy Business Marketing, LLC
- Appendix H Natural Gas Suppliers Parties and The Retail Energy Supply Association

Rosemary Chiavetta, Secretary
July 22, 2019
Page 2

Copies will be provided as indicated on the Certificate of Service.

The Joint Petition for Approval of Settlement of All Issues is being filed separately.

Respectfully submitted,



Garrett P. Lent

GPL/jl
Enclosures

cc: Honorable Christopher P. Pell
Certificate of Service

CERTIFICATE OF SERVICE

(Docket No. R-2018-3006814)

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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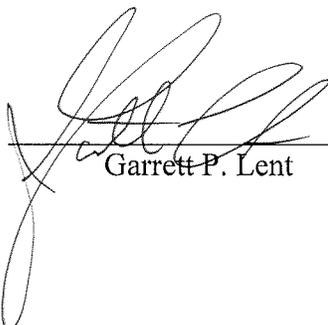
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Date: July 22, 2019



Garrett P. Lent

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2018-3006814
Office of Consumer Advocate	:	C-2019-3007753
Office of Small Business Advocate	:	C-2019-3007756
Keith P. Dolon	:	C-2019-3007953
Gail L. Hoffer & Bernadette Margel	:	C-2019-3008002
James J. Knowlton	:	C-2019-3008606
Christopher Visco	:	C-2019-3008737
Ruth E. Neely	:	C-2019-3008833
Sam Galdieri	:	C-2019-3009325
Billie Sue Atkinson	:	C-2019-3009949
	:	
v.	:	
	:	
UGI Utilities, Inc. – Gas Division	:	

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

- Appendix A UGI Utilities, Inc. – Gas Division
- Appendix B Bureau of Investigation & Enforcement
- Appendix C Office of Consumer Advocate
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- Appendix H Natural Gas Suppliers Parties and The Retail Energy Supply Association

Date: July 22, 2019

APPENDIX “A”

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2018-3006814
Office of Consumer Advocate	:	C-2019-3007753
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Sam Galdieri	:	C-2019-3009325
Billie Sue Atkinson	:	C-2019-3009949
	:	
v.	:	
	:	
UGI Utilities, Inc. – Gas Division	:	

UGI UTILITIES, INC. – GAS DIVISION

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

Date: July 22, 2019

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CUSTOMER CLASS RATE IMPACT ANALYSIS Attachment 1

I. INTRODUCTION

UGI Utilities, Inc. – Gas Division (“UGI Gas” or the “Company”) hereby submits this Statement in Support of the Joint Petition for Settlement of All Issues (“Settlement”) entered into by UGI Gas, 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”), the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (“CAUSE-PA”), the Commission for Economic Opportunity (“CEO”), Natural Gas Supplier Parties (“NGS”) and the Retail Energy Supply Association (“RESA”) (collectively, “NGS/RESA”), UGI Energy Services, Inc. (“UGIES”), and Direct Energy,¹ all Parties to the above-captioned proceeding (hereinafter, collectively the “Joint Petitioners”).² The Settlement represents a full resolution of all issues raised in the instant proceeding.

The Joint Petitioners unanimously agree that UGI Gas’s January 28, 2019 distribution base rate increase filing (“2019 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 \$30.0 million, based upon a Fully Projected Future

¹ Direct Energy collectively refers to Direct Energy Business, LLC, Direct Energy Services, LLC, and Direct Energy Business Marketing, LLC.

² The Laborers’ District Council of Eastern Pennsylvania (“LDCEPA”) also intervened in this proceeding. LDCEPA filed direct testimony in this proceeding, but did not otherwise actively participate. LDCEPA is not a signatory to this Settlement, but will be served a complete copy. Additionally, seven residential customers filed formal complaints opposing the proposed rate increase. These complainants were not active parties in this proceeding and are not signatories to this Settlement. A complete copy of this Settlement is being served on all formal complainants.

Test Year (“FPFTY”) ending September 30, 2020, to become effective on or before October 29, 2019, for service rendered thereafter.

The Settlement reflects a carefully balanced compromise of the interests of the Joint Petitioners. UGI Gas submits that the Settlement is in the public interest, just and reasonable, and supported by substantial evidence and, therefore, should be approved without modification. For the reasons explained below, UGI Gas respectfully requests that Deputy Chief Administrative Law Judge Christopher P. Pell (“ALJ”) and the Commission approve the proposals set forth in UGI Gas’s 2019 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. 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, 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 Gas's proposals set forth in its 2019 Base Rate Case. In addition to informal discovery, UGI Gas responded to more than 1,000 formal discovery requests, many of which included subparts. The active parties filed five rounds of testimony, including UGI Gas's direct testimony, other parties' direct testimony, rebuttal testimony, surrebuttal testimony, and rejoinder testimony. Further, the Parties engaged in numerous settlement discussions and formal negotiations which ultimately led to the Settlement.

The Joint Petitioners to this proceeding undertook a tremendous effort to reach a full settlement of all issues. The Joint Petitioners 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 Joint Petitioners 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 Joint Petitioners 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 supported by all active parties to 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 the 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 Gas's 2019 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 \$30.0 million, to become effective on or before October 29, 2019 for service rendered thereafter. (Settlement ¶ 17). The distribution rate revenue increase of \$30.0 million is approximately 42% of the proposed revenue increase of \$71.1 million requested in UGI Gas's January 28, 2019 filing.

The revenue requirement under the Settlement is a "black box" settlement, with certain exceptions discussed below. (Settlement ¶ 17). Under a "black box" settlement, parties do not specifically identify rate base, revenues and expenses, and return that are allowed or disallowed. UGI Gas believes that the "black box" concept often facilitates settlement agreements because it permits parties to retain their positions on important ratemaking issues, for the proceeding at hand as well as for future proceedings.

The Commission encourages black box settlements. *See, e.g., Pa. PUC 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 Gas, on a combined basis, projected to spend more than \$750 million in system investments over the time periods covered by its filing. These investments are necessary to accelerate the replacement of aging gas plant infrastructure, upgrade and improve system segments and modernize facilities, serve new residential and commercial customers, connect customers converting to natural gas, 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. Since its last base rate case, UGI Gas 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 Gas St. No. 1, p. 7).

The revenue increase is essential to UGI Gas’s continued ability to attract capital on reasonable terms and provide safe and reliable service to customers. Although UGI Gas has implemented cost containment measures, efficiency enhancements, and has seen substantial customer growth over time, the growth in operating and capital investment, along with experienced and anticipated declines in per customer usage, have caused UGI Gas to be unable to earn a fair rate of return on its investment at present rate levels. (UGI Gas St. No. 1, p. 7).

Absent rate relief, UGI Gas projected that, for the twelve months ending September 30, 2020, its return on common equity for the distribution business will fall to approximately 7.41%. (UGI Gas St. No. 1, p. 7). Such a return is clearly deficient under any reasonable standard and

would preclude UGI Gas from obtaining capital on reasonable terms to finance infrastructure improvements needed to maintain reliable service to customers. Moreover, such a return on equity for the FPFTY, absent rate relief, also would be significantly lower than the return on equity of 11.25% recommended by Mr. Moul in his testimony. (UGI Gas St. No. 5, pp. 49-50). Rate relief will allow UGI Gas to continue to provide safe and reliable gas service and continue its capital investment strategy from a position of financial strength, which will allow the Company to make system investments that will enhance the reach and capacity of the UGI Gas distribution system and replace older, obsolete facilities. This is necessary to ensure continued system reliability, safety, and customer service performance. (UGI Gas St. No. 1, p. 8).

In this proceeding, UGI Gas, I&E, and OCA presented testimony on revenue requirement issues.³ In its initial filing, UGI Gas proposed a revenue increase of \$71.1 million (UGI Gas St. No. 1, p. 5), which included a proposed return on equity of 11.25% (UGI Gas St. No. 5, pp. 49-50). I&E initially recommended a revenue requirement decrease of approximately \$13.4 million (I&E St. No. 1, p. 3) with a return on equity of 8.97% (I&E St. No. 2, p. 23). The OCA initially recommended a revenue requirement decrease of approximately \$25.1 million (OCA Statement No. 1, p. 5) with a return on equity of 8.75% (OCA St. No. 2, p. 3). Through negotiations, the Joint Petitioners were able to reach a compromise within a range of their competing litigation positions.

The \$30.0 million proposed revenue increase under the Settlement reflects concessions by the parties to reach a point between the positions adopted in the testimony of UGI Gas, I&E, and OCA and is clearly reasonable. The proposed revenue increase of \$30.0 million under the

³ Although the OSBA also presented testimony on revenue requirement issues, the OSBA did not present an overall recommended revenue requirement.

Settlement is supported by substantial evidence, is just and reasonable, is in the public interest, and should be adopted without modification.

2. Exceptions to the “Black Box” Settlement

a. Test Year Plant Reporting Obligations

UGI Gas’s rate base claim in this case was based on the sum of the closing plant balances as of September 30, 2018 (“HTY”), plus the budgeted plant additions for the years ending September 30, 2019 (“FTY”) and September 30, 2020 (*i.e.* the FPFTY), less budgeted FTY and FPFTY plant retirements. (UGI Gas St. No. 3, p. 5). Stated otherwise, UGI Gas claimed an end-of-test-year rate base for the FPFTY. The OCA recommended an average FPFTY rate base, with some additional adjustments. (OCA St. No. 1, pp. 5-9).

As part of the Settlement, the Joint Petitioners agree that UGI Gas will submit updates to reflect the actual capital expenditures, plant additions, and retirements at the end of the FTY and FPFTY. (Settlement ¶ 18). This Settlement provision is consistent with other base rate cases and will assist the Parties and the Commission in reviewing the consistency of UGI Gas’s actual and budgeted capital expenditures for the FTY and FPFTY and the appropriate level of Distribution System Improvement Charge (“DSIC”) eligible plant that UGI Gas will recover in the future through an approved DSIC surcharge mechanism.

b. Distribution System Improvement Charge

The Settlement provides that, as of the effective date of rates in this proceeding, UGI Gas will be eligible to include plant additions in the DSIC once the total net plant balances reach the levels projected to be in service in Revised UGI Gas Exhibit A as of September 30, 2020 (\$2,875,056,000). 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 ¶ 19). 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 reasonably permits the DSIC to become effective once the actual plant in service levels exceed the levels projected by UGI Gas at September 30, 2020. This will ensure UGI Gas is able to timely recover the reasonable and prudent capital costs incurred to repair, improve, or replace its aging distribution infrastructure that is placed in service between base rate cases, which, in turn, provides customers with enhanced gas service safety and reliability benefits. Finally, UGI Gas notes that this settlement provision is similar 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 Gas submits that this settlement provision should be approved without modification.

The Settlement further provides that, for purposes of calculating its DSIC, UGI Gas 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 ¶ 20). 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).

c. Environmental Cost Recovery

i. Annual Environmental Expense

UGI Gas's environmental remediation expense claim enables the Company to fully recover the costs incurred in connection with its obligations under Consent Orders and Agreements ("COAs") with the Pennsylvania Department of Environmental Protection ("DEP") to remediate former manufactured gas plants ("MPGs"). In its filing, UGI Gas claimed \$4.188 million for prospective environmental remediation expense based on the simple average of the last three years of cash expenditures for MGP remediation expense. (UGI Gas St. No. 3, pp. 17-19). No party challenged the prospective environmental remediation expense in the Company's filed case.

In rebuttal, the Company explained that its position in direct testimony had understated the annual cost because the annual remediation expense from one of the three rate districts incorporated costs predating the effective date of the applicable COA and therefore was not indicative of annual remediation expense for that rate district. (UGI Gas St. No. 2-R, pp. 17-18). The corrected amount of environmental remediation expense presented in the Company's rebuttal case was \$4.8 million per year. (UGI Gas St. No. 2-R, pp. 17-18).

The Settlement includes an annual amount of \$4.188 million for recovery of future environmental costs as a compromise to its rebuttal position. (Settlement ¶ 64). The \$4.188 million annual remediation expense is consistent with the unchallenged amount set forth by UGI Gas in its direct case and is reasonable. Further, the Settlement provides that annual differences between \$4.188 million and actual expenditures shall be deferred as a regulatory asset (where expenditures are greater than \$4.188 million per year) or as a regulatory liability (where expenditures are less than \$4.188 million on an annual basis) and accumulated for book and ratemaking purposes until UGI Gas's next base rate case. (Settlement ¶ 64). This cost treatment

should protect customers from over-recoveries and UGI Gas from under-recoveries for this non-revenue producing and non-expense reducing category of expense. UGI Gas submits that this Settlement provision is in the public interest because it is consistent with the Company's method for calculating prospective remediation costs and, as discussed below, the historic ratemaking treatment of its annual remediation expense differences.

ii. Amortization of Environmental Expense

In prior cases, the Commission approved a reconciliation mechanism that permitted the Company to accumulate, defer and obtain ratemaking recovery for environmental costs incurred in compliance with the COAs that exceeded established annual ratemaking levels less any cost shortfall in years where actual expenditures fell below that level. In this proceeding, UGI Gas proposed to recover \$6.186 million of deferred costs over a three-year amortization period. (UGI Gas St. No. 3, pp. 17-19). In addition, the Company proposed continued amortization of a previously approved unamortized amount of \$1.917 million. Combined, this \$8.103 million unrecovered balance represents the difference between the amount of MGP remediation expenditures incurred under the COAs over the period since each of the rate district's most recent rate cases and the amount of such expenditures included for ratemaking purposes over the same period for each of the three rate districts, in accordance with the ratemaking reconciliation mechanism approved by the Commission for use by each of the three rate districts. (UGI Gas St. No. 3, pp. 17-19). I&E recommended a five-year amortization period for the \$6.186 million amount, rather than a three-year period, based on the Company's prior use of a five-year amortization period. (I&E St. No. 1, pp. 29-30).

In the Settlement, the Joint Petitioners agreed to include an annual amount of \$1.621 million for recovery, based on a five-year amortization period, based on a total balance of \$8.103 million of deferred environmental costs that had accumulated, as set forth on UGI Gas Exhibit A,

Schedule D-8, lines 9 and 13. (Settlement ¶ 64). UGI Gas submits that this Settlement provision is in the public interest because it is consistent with the deferral reconciliation mechanism authorized by the Commission. In addition, this cost treatment should protect customers from over-recoveries and UGI Gas from under-recoveries for this non-revenue producing and non-expense reducing category of expense. Finally, this provision of the Settlement reflects a balance between the litigation positions of I&E and the Company.

d. Accumulated Deferred Income Tax and Excess Deferred Federal Income Tax

In its initial rate filing, UGI Gas included a FPFTY Accumulated Deferred Income Tax (“ADIT”) calculation, based upon a pro-rationing methodology required under Treasury Regulation 1.167(l)-1(h)(6)(ii) that is necessary to be in compliance with Internal Revenue Service (“IRS”) normalization requirements. (UGI Gas St. No. 11, pp. 9-10). As part of the Settlement, the Joint Petitioners agreed to accept the Company’s ADIT and pro-rationing methodology as required by Treasury Regulation 1.167(l)-1(h)(6)(ii). (Settlement ¶ 65). In addition, the Company’s method to amortize Excess Accumulated Deferred Federal Income Taxes (“EDFIT”) according to the Average Rate Assumption Method (“ARAM”) is accepted.

Id.

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. The Settlement further provides that, absent a change in federal or state law, regulation, judicial precedent or policy, the remaining unamortized EDFIT balance will continue as a reduction to rate base in all future proceedings until the full amount is returned to ratepayers.

e. Repairs Allowance

In its filing, UGI Gas proposed to continue to normalize the repairs tax expense deduction for federal income tax purposes over the book life of the plant giving rise to the deduction. (UGI Gas St. No. 11, p. 11). No party challenged or otherwise opposed the Company's proposal.

As part of the Settlement, the Joint Petitioners agree that all capitalized repairs deductions claimed on a tax return have been normalized for ratemaking purposes and the appropriate related amount of tax effect of those deductions has been reflected as ADIT as a reduction to UGI Gas's rate base. (Settlement ¶ 66). The Settlement continues the practice that UGI Gas has followed since its adoption of the current methodology used for calculating the repairs allowance. Normalization benefits customers by ensuring that they receive a fair portion of the benefit of the repairs allowance deduction through rate base, over the life of the plant giving rise to the deductions, regardless of when UGI Gas files a rate case. Moreover, normalizing the repairs allowance deduction provides an important source of cash flow to UGI Gas that can be used to support UGI Gas's large, related capital spending program and reduce outside borrowing.

f. UNITE/Hypercare

In its filing, UGI Gas proposed to capitalize certain costs incurred to provide post-implementation support following the deployment of the new data base assets in connection with the Company's implementation and use of cloud-based information services. (UGI Gas St. No. 4, pp. 17-22). Some portion of these costs can already be capitalized under generally accepted accounting principles ("GAAP"), such as modifications to existing software that result in additional functionality. However, other post-implementation support efforts such as break/fix resources or resources dedicated to troubleshooting issues cannot currently be capitalized under GAAP. In this case, however, the Company is requesting Commission approval to record these

costs as a long-lived capital asset. (UGI Gas St. No. 4, p. 21). Capitalization is appropriate, since, as described in the direct testimony of Ms. Mattern, Hypercare is in lieu of running extended pre-implementation parallel testing operations, whose costs can be capitalized under GAAP and can be as costly, if not more costly, than a Hypercare solution. (UGI Gas St. No. 4, p. 22).

No party challenged or otherwise opposed the Company's proposed accounting treatment for UNITE/Hypercare. As such, the Joint Petitioners agreed that the Company shall be permitted to capitalize the costs associated with these two programs, as described on pages 20-22 of the direct testimony of Megan Mattern, UGI Gas Statement No. 4, and that the Company shall begin depreciation of the costs after the systems are placed in service. (Settlement ¶ 67).

This Settlement provision is in the public interest because it recognizes that the new databases will provide benefits to customers over extended periods of time and not just the period in which the costs are incurred. It also recognizes that post-implementation technical support is part of the necessary process to achieve the functionality anticipated from the new technology.

g. Accounting for Mechanical Tee Programs

Pursuant to UGI Gas's Distribution Integrity Management Program, the Company has identified an elevated risk associated with mechanical tees. Mechanical tees are a type of fitting formerly used for branching plastic service lines from plastic mains. Over time, the mechanical connections affixing the tees to the main may fail which can result in a hazardous leak. As an accelerated action to mitigate this distribution system risk, the Company implemented a remediation program. In the remediation process, tees are excavated, evaluated, and remediated by replacing the original nylon bolts with new non-corrosive stainless steel bolts.

Settlement Paragraph 68 permits the Company to capitalize the costs of its mechanical tee program. Effective October 1, 2018, the Company will be permitted, for book accounting purposes, to record the costs associated with its mechanical tee remediation program as capital investment. (Settlement ¶ 68).

This proposal is in the public interest because it recognizes that the replacement of mechanical tees is designed to extend the service life of related pipeline and appurtenances, plays an important safety role in the operation of the UGI Gas system, and recognizes that the Company has undertaken a comprehensive, multi-year, program to address this safety issue. Therefore, capitalization of the entire program, effective October 1, 2018, is appropriate.

h. Depreciation Rates

UGI Gas's depreciation studies, accrued depreciation claim, and annual depreciation expense claim were set forth in UGI Gas Statement No. 7 and UGI Gas Exhibits C (Historic), C (Future), and C (Fully Projected). No party filed testimony in opposition to the Company's claimed depreciation.

As part of the Settlement, the Joint Petitioners agree to accept UGI Gas's as-filed depreciation rates. (Settlement ¶ 69). UGI Gas submits that this Settlement provision is in the public interest because it properly accounts for the Company's outlook and plans, and is consistent with the depreciation procedure used by most other Pennsylvania utilities.

C. REVENUE ALLOCATION AND RATE DESIGN

a. Billing Determinants

In its filing, UGI Gas annualized sales by developing sales and revenue adjustments reflective of projected customer counts and annual expected usage per customer as of September 30, 2020, by reviewing historic usage data and applying regression analysis techniques. (UGI Gas St. No. 8, pp. 11-13). Usage per customer was projected based on a fifteen year regression

analysis of actual usage and degree day information for the period from October 1, 2003 through September 30, 2018. (UGI Gas St. No. 8, pp. 11-13; UGI Gas Ex. DEL-3(c)) As part of its filing, the Company estimated a decline in usage per customer for Rates R/RT and N/NT due to the proposed Energy Efficiency and Conservation (“EE&C”) Plan. (UGI Gas St. No. 8, pp. 14-15).

I&E witness Mr. Kubas opposed the Company’s use of the fifteen year regression. Instead, Mr. Kubas, while adopting the Company’s regression methodology, limited his analysis to ten years of data rather than the fifteen years used by the Company. (I&E St. No. 3, p. 30). In response, the Company argued that I&E’s position defied overwhelming industry data on the trend of reduced customer usage, was selective in its choice of the period of data to be assessed, and chose a period that started from a low-use point associated with the economic recession. (UGI Gas St. No. 8-R, pp. 1-10).

In the Settlement, the Joint Petitioners agree that the billing determinants will be based on the Company’s original filing, UGI Gas Exhibit E, Proof of Revenue, except that the sales for Rate R/RT shall be increased by 1,128,518 Mcf (2 Mcf per year per Rate R/RT heating customer). (Settlement ¶ 22). The agreed upon billing determinants represent a reasonable compromise between the positions taken by UGI Gas and I&E.

b. Revenue Allocation

UGI Gas relied upon a combined revenue requirement model, rather than a class cost of service study to allocate its proposed total jurisdictional revenue to each of the retail customer classes. (UGI Gas St. No. 8, pp. 5-6; UGI Gas Exs. D, D-1, and D-2). UGI Gas, I&E, OCA, and OSBA all presented evidence regarding revenue allocation. All of these Parties had different proposals for how to allocate the revenue increase to the customer classes, as well as different proposals regarding how to scale back any reduction to the proposed increase. UGI Gas

proposed to move all rate classes for its three districts to unified rates, and on an overall class basis move 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.

OCA and OSBA took differing positions on how the revenue increase should be allocated to the various classes. (OCA St. No. 3, p. 30; OSBA St. No. 1, pp. 20, 22-25).

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:

Class	Revenue Allocation (\$ million)
Rate R/RT	\$ 23.02
Rate N/NT	\$ 4.85
Rate DS	\$ 0.49
Rate LFD	\$ 0.79
Rate XD	\$ 0.95
Rate IS	\$ (0.10)
Total	\$ 30.00

(Settlement ¶ 23). The rate impact of the settled revenue allocation is provided in the “Customer Class Rate Impact Analyses” attached hereto 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 rate classes to or toward uniform rates, as described in Section III.C.c.i, below. Given the complexity of trying to unify rate classes and move each class toward the overall system rate of return, UGI Gas believes that the revenue allocation under the Settlement is fully consistent with the Commonwealth Court’s decision in *Lloyd* and prior Appellate Court precedent regarding revenue allocation.

In addition, in considering the *Lloyd* decision, it is important to recognize that *Lloyd* did not overturn prior judicial precedent with regard to revenue allocation and the applicability of cost of service studies. When allocating revenues to the rate classes, the Commission is not required to adopt a single cost of service study or strictly allocate revenues according to the study's results. In *Executone of Philadelphia, Inc. v. Pa. 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 and the benefit of having unified distribution rates, 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 movement towards cost of service for all rate classes under UGI Gas's class cost of service study. As such, UGI Gas submits that the Settlement's proposed revenue allocation is fully consistent with the *Lloyd* decision and other relevant precedent regarding revenue allocation.

c. Rate Design

The primary objective of the proposed rate design was to develop rate schedules that would produce the requested revenues when applied to forecasted conditions for the FPFTY. In its filing, UGI Gas proposed to unify rate classes across the three rate districts, and where reasonable, to continue movement of each customer class as a whole toward distribution rates that are more reflective of how costs are incurred and to be competitive with prices of competing alternate-energy sources, including physical bypass of UGI Gas's system. (UGI Gas St. No. 8, p. 24). The rate design proposed for each Rate Schedule is summarized in the direct testimony of Mr. David E. Lahoff. (See UGI Gas St. No. 8, pp. 24-35).

i. Uniform Distribution Rates and Riders

Pursuant to the *Joint Application of UGI Utilities, Inc., UGI Penn Natural Gas, Inc., and UGI Central Penn Gas, Inc.*⁴ (hereinafter referred to as the "Merger"), which was approved on

⁴ See *Joint Application of UGI Utilities, Inc., UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc. for All of the Necessary Authority, Approvals, and Certificates of Public Convenience for (1) an Agreement and Plan of Merger; (2) the Merger of UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc. into UGI Utilities, Inc.; (3) the initiation by UGI Utilities, Inc. of natural gas service in all territory in this Commonwealth where UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc. do or may provide natural gas service; (4) the abandonment by UGI Penn Natural Gas, Inc. of all natural gas service in this Commonwealth; (5) the abandonment by UGI Central Penn Gas, Inc. of all natural gas service in this Commonwealth; (6) the adoption by UGI Utilities,*

September 20, 2018, UGI Gas was permitted to merge its three pre-existing Natural Gas Distribution Companies (“NGDCs”) into a single NGDC. The Merger was completed on October 1, 2018, and UGI Gas commenced operations under the approved three rate district structure,⁵ for UGI South Rate District, UGI North Rate District and UGI Central Rate District. The Merger did not impact the rates of the three rate districts, and the Settlement agreed to in that proceeding indicated that the issue of unified rates should be addressed in a future base rate proceeding.

As part of this proceeding, UGI Gas proposed to unify the rates in each rate class for all three districts. The Company applied a “two times” standard under which (1) no rate district would receive more than two times the system average increase, and (2) no rate class within a district would receive more than two times the district average increase (for any rate district with a proposed net increase in total). (UGI Gas St. No. 1, pp. 17-20). As explained in Mr. Lahoff’s testimony, the Company proposed to establish uniform rates and move each rate class an equal percentage towards the system average return. (UGI Gas St. No. 8, Table 4). A significant portion of the larger increases for some rate classes were the product of the below system average return of those classes and rate districts at present rates and was not solely due to the establishment of uniform rates. (UGI Gas St. No. 1, p. 18).

I&E, OCA, and OSBA raised concerns regarding the degree of movement of certain rate classes towards uniform intra-class rates. (I&E St. No. 3, pp. 64-82; OCA St. No. 3, pp. 28-37; OSBA St. No. 1, pp. 23-30). In rebuttal, UGI Gas addressed the concerns about the degree of

Inc. of UGI Penn Natural Gas, Inc.’s and UGI Central Penn Gas, Inc.’s Existing Tariffs and their Application within New Service and Rate Districts of UGI Utilities, Inc. Corresponding to their Existing Service Territories as UGI North and UGI Central, respectively; (7) the adoption by UGI Utilities, Inc. of its Existing Tariff to be applied to a New UGI South Service and Rate District; (8) Where Necessary, Associated Affiliated Interest Agreements; and (9) any Other Approvals Necessary to Complete the Contemplated Transaction, Docket Nos. A-2018-3000381, A-2018-3000382 and A-2018-3000383 (Opinion and Order entered September 20, 2018).

⁵ See Recommended Decision at pp 7-9.

movement of the different rate classes, as well as the possibility of using a two-step process to reach uniform rates. (UGI Gas St. No. 8-R, pp. 17-23).

The Joint Petitioners agree that UGI Gas's proposal to move all rate classes to uniform distribution and purchased gas cost ("PGC") rates on the effective date of new rates established in this proceeding is accepted in most respects, provided, however, that for Rate N/NT and Rate DS, uniform distribution rates will be achieved in two steps. (Settlement ¶ 24). This provision of the Settlement is in the public interest because it produces significant gains in administrative efficiency, in the clarity of the Company's policies that are applicable to its customers, and allows for uniform intra-class rates for the vast majority of the Company's customers while mitigating the impact of rate shock.

For Rates N/NT and DS, Step 1 of the two-step process will begin with the effective date of new rates, and Step 2 will be made effective with new rates established in the Company's next general rate proceeding under 66 Pa. C.S. § 1308(d). (Settlement ¶ 24). For Step 1, the Rate N/NT North rate district rates will be increased by twelve (12) percent and Rate DS North rate district rates will be increased by twenty (20) percent, with Rate N/NT and Rate DS South and Central rate districts being set uniformly by class to recover the remaining N/NT and DS revenue requirements, respectively. For Step 2, the parties reserve their rights in a future rate case to oppose the Company's proposed rates and to propose alternative rates. (Settlement ¶ 24).

UGI Gas believes that this two-step approach provides a path to fully unified rates for all of the Company's customers, while recognizing that in some instances, maintaining intra-class rate differences can be reasonable to serve the principle of gradualism.

In addition to the consolidation of distribution rates, PGC rate consolidation will occur with the effective date of the new PGC year, December 1, 2019.

ii. Rate R/RT Customer Charge

UGI Gas proposed a Rate R customer-class customer charge of \$19.00 per month for all rate districts. (UGI Gas St. No. 8, p. 26). This is compared to the current charge of \$13.25 per month in the UGI Gas North Rate District, \$14.60 per month in the UGI Gas Central Rate District and \$11.75 per month in the UGI Gas South Rate District. (UGI Gas St. No. 8, p. 26). I&E recommended that the customer charge for the Rate R customer group be scaled back rather than the usage charge based on the determined revenue requirement. (I&E St. No. 3, pp. 88-89). OCA, CAUSE-PA, and CEO all opposed UGI Gas'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 St. No. 3, pp. 31-32; *see generally* OCA St. No. 4, CAUSE-PA St. No. 1, CEO St. No. 1).

In its response, UGI Gas provided extensive support for its proposal from a cost of service perspective. (UGI Gas St. No. 8-R, pp. 17-23). UGI Gas also explained why an increase in the customer charge will not negatively impact conservation. (UGI Gas St. No. 8-R, p. 22). UGI Gas further stressed that the majority of the total bill will continue to be usage based even if UGI Gas's proposed residential customer charge is adopted. (UGI Gas St. No. 8-R, p. 22).

The Joint Petitioners were able to resolve this issue through settlement by agreeing to a Rate R/RT customer charge of \$14.60 per month. (Settlement ¶ 25). The Company believes this charge represents a fair compromise among the competing proposals of the various parties.

iii. Rate N/NT Customer Charge

UGI Gas proposed a unified Rate N customer group customer charge of \$37.00 per month, as compared to the current charge of \$34.00 per month in the North Rate District, \$30.40 per month in the Central Rate District and \$16.00 per month in the South Rate District, to better

reflect the customer costs per bill of \$52.90 as identified within the cost of service study presented in UGI Gas Exhibit D. (UGI Gas St. No. 8, p. 27). I&E and OSBA both opposed a consolidated customer charge, in part, based on gradualism concerns. (I&E St. No 3, p. 85; OSBA St. No. 1, pp. 28-29).

In rebuttal testimony, the Company provided support for the unification of Rate N/NT customers in a single step. (UGI Gas St. No. 8-R, p. 21). However, in addition, UGI Gas outlined a two-step approach to unification to address the gradualism concerns raised by OSBA and I&E. (UGI Gas St. No. 8-R, p. 21). Application of the two-step approach included unifying the customer charge for Rate N/NT as part of this proceeding, and moving the distribution rates toward unification, with full unification being achieved in the second step.

In the Settlement, the Joint Petitioners agree to a Rate N/NT customer charge of \$23.50 per month. (Settlement ¶ 25). This resolution for the Rate N/NT customer charge is a reasonable compromise of competing litigation positions and is within the range of positions taken by the parties in this proceeding.

iv. Rate DS Customer Charge

UGI Gas proposed to increase the current Rate DS monthly customer charge to \$280.00 per month on a consolidated basis. (UGI Gas St. No. 8, p. 27). This is compared to the current charge of \$229.00 per month in the UGI Gas North Rate District, \$192.27 per month in the UGI Gas Central Rate District and \$290.00 per month in the UGI Gas South Rate District. (UGI Gas St. No. 8, p. 27). The proposed customer charge is also supported by the customer costs per bill for Rate DS of \$285.98 as identified within the cost of service study presented in UGI Gas Exhibit D. (UGI Gas St. No. 8, p. 27). Both I&E and OSBA argued that that the Company's proposed rates for Rate DS conflicted with the ratemaking concept of gradualism. (*See* I&E St.

No. 3, pp. 76-82; OSBA St. No. 1, pp. 23-30). In rebuttal testimony, the Company provided support for its proposed customer charge for Rate DS. (UGI Gas St. No. 8-R, p. 21).

In the Settlement, the Joint Petitioners agreed to a Rate DS customer charge of \$260 per month. (Settlement ¶ 25). The settlement of the Rate DS customer charge is a reasonable compromise of competing litigation positions and is within the range proposed by the Company and OSBA.

v. Rate LFD Customer Charge

UGI Gas proposed a Rate LFD monthly customer charge of \$670.00 per month. (UGI Gas St. No. 8, p. 28). This is compared to the current charge of \$700.00 per month in the UGI Gas North Rate District, \$480.62 per month in the UGI Gas Central Rate District and \$700.00 per month in the UGI Gas South Rate District. The proposed customer charge is also supported by the customer costs per bill for Rate LFD of \$683.45 as identified in the cost of service study presented in UGI Gas Exhibit D. (UGI Gas St. No. 8, p. 28). No party opposed the customer charge for Rate LFD customers.

The Joint Petitioners agree to a Rate LFD customer charge of \$670 per month as proposed by UGI Gas. (Settlement ¶ 25). The Settlement of the Rate LFD customer charge unifies the rates across the three rate districts. It is in the public interest because it is fully supported by the customer costs per bill for Rate LFD of \$683.45 as identified in the cost of service study presented in UGI Gas Exhibit D.

d. Interruptible Revenue

Unlike some other utility services, natural gas is subject to competition from alternative fuels, direct customer bypass and locational competition, and there are no uses for natural gas for which there are no other viable energy alternatives. UGI Gas currently provides interruptible gas service to customers under contracts voluntarily entered into that have rates based on the

alternatives available to such customers, whether that is an alternate fuel option, an alternative natural gas solution, *i.e.* physical bypass, or a locational alternative, *i.e.* moving production to a different facility with lower energy costs. UGI Gas's three rate districts currently provide interruptible gas service to 380 customers under negotiated contracts that have rates based on the available alternatives. (UGI Gas St. No. 1, pp. 24-25).

In this proceeding, UGI Gas proposed to use a portion of the interruptible revenues (\$14.9 million) consistent with its past practice, as an offset to the revenue requirement passed on to other customer classes. (UGI Gas St. No. 1, pp. 24-25; UGI Gas St. No. 8, pp. 16-17). The remaining portion of the interruptible revenues would be utilized in two complementary programs: the Extension and Expansion Fund ("EEF") and the Interruptible Sharing Mechanism ("ISM"). The EEF was proposed to support the continued extension and expansion of natural gas into unserved and underserved areas in and near the UGI Gas service territory, and would be funded with 20% of FPFTY interruptible revenues per year, or at an initial level of \$4.9 million per year. (UGI Gas St. No. 1, p. 25). Amounts from this EEF would then be utilized to reduce the otherwise applicable GET Gas surcharge paid by participating customers, and as funding for certain "last mile" extension and expansion projects. (UGI Gas St. No. 1, pp. 25-26). The ISM would create an incentive sharing mechanism for interruptible revenues which allows the Company to retain 20% of FPFTY interruptible revenues, or \$4.9 million annually, to maximize interruptible margins, because all customers stand to benefit by the creation of a substantial, sustainable revenue amount that provides an offset to the revenue requirement established for other classes in future rate case proceedings and also maximizes the benefits that interruptible revenues can provide to otherwise delay the need for rate relief. (UGI Gas St. No. 1, p. 27). Under the Company's proposed treatment for interruptible revenues, UGI Gas would be at-risk if

the actual level of interruptible revenue falls below the anticipated amount, and would retain any 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 Gas St. No. 1, p. 25).

I&E, OCA, and OSBA opposed the Company's interruptible revenue proposal. (I&E St. No. 3, pp. 53-63; OCA St. No. 3, pp. 37-39; OSBA St. No. 1, pp. 5-10). All three organizations proposed that the EEF and the ISM should not be approved, and that all of the interruptible revenues should be reflected in rates to reduce the overall revenue requirement. (I&E St. No. 3, pp. 53-63; OCA St. No. 3, pp. 37-39; OSBA St. No. 1, pp. 5-10). In its rebuttal testimony, the Company provided an extensive response. (UGI Gas St. No. 1-R, pp. 11-24).

In Settlement, the Company agreed to include a total of \$24.602 million of interruptible revenue in its Proof of Revenues, rather than the \$14.9 million that it had included in its filing. (Settlement ¶ 26). Further, the Company agreed to withdraw its proposed Extension and Expansion Fund and Interruptible Sharing Mechanism. (Settlement ¶ 26). This provision provides additional revenues that offset the increase that would otherwise be applied to other customer classes, and represents a significant compromise by the Company in order to reach a settlement of all issues.

e. Growth Extension Tariff Pilot Program

UGI Gas proposed to extend its five-year Growth Extension Tariff ("GET Gas") program. GET Gas customers pay a monthly surcharge for ten years after the initiation of natural gas service. (UGI Gas St. No. 9, p. 16). The Company used historical average costs for service lines and mains to project how many customers would be added each year based on the projected total investment of \$5.0 million per year per company (as this program was developed when there were three separate NGDCs) for a total investment target of \$75 million. (UGI Gas

St. No. 9, p. 16). The GET Gas charge is currently set at a different amount for each of the Company's rate districts because they were based, in part, on the average distribution revenue for a typical conversion customer, which currently differs per rate district. (UGI Gas St. No. 9, p. 20). The Company proposed a residential GET Gas surcharge of \$21.75 per month and a commercial GET Gas surcharge of \$7.86 per month with a volumetric surcharge of \$1.07 per Mcf. (UGI Gas St. No. 9, p. 27).

I&E and OSBA recommended that the GET Gas program be terminated. (*See generally* I&E St. No. 4 and I&E St. No. 4-R; *see also* OSBA St. No. 1, pp. 31-32). In response, UGI Gas presented an extensive case in rebuttal in support of the cost effectiveness of the GET Gas program, and the significant public benefits associated with this program. (UGI Gas St. No. 9-R, pp. 12-25). The Company's proposal to lower the monthly surcharge is expected to provide a significant boost in the market share the program will be able to achieve over time. (UGI Gas St. No. 9-R, p. 14). However, using the imbalance produced by the upfront costs to judge the overall effectiveness of the program would understate the economics and the overall benefit of the program. (UGI Gas St. No. 9-R, pp. 14, 16-17). Further, the Company refuted the claims regarding the cross-subsidization of the GET Gas program. (UGI Gas St. No. 9-R, pp. 15, 18). Finally, UGI Gas presented extensive testimony addressing the analytical basis I&E used to conclude that the GET Gas program was "uneconomic". (UGI Gas St. No. 9-R, pp. 19-25).

In the Settlement, the Joint Petitioners have agreed to extend the GET Gas pilot program for another five-year period. (Settlement ¶ 27). As part of this extended program, UGI Gas will apply a \$29.00 monthly surcharge to all new GET Gas customers throughout its service territory. (Settlement ¶ 27). New commercial GET Gas customers will pay a monthly surcharge of \$20.03 and a volumetric surcharge of \$1.87/Mcf. (Settlement ¶ 27). For customers accepted by the

Company before October 29, 2019 that currently have rates lower than the Settlement surcharges in this proceeding, the lower rates will remain unchanged consistent with Paragraph 21 of the settlement establishing the original GET Gas program at Docket No. P-2013-2356232 (Order entered February 20, 2014). Also as part of the extended pilot program, the Company may continue to use the GET Gas program to expand into additional underserved and unserved areas of its certificated service territory except in Gas Beyond the Mains territories already determined uneconomic by the Commission. (Settlement ¶ 27). Finally, as part of the extended pilot program, the Company will include in each of its annual reports an economic evaluation including cost, saturation and revenue projections for each GET Gas project. (Settlement ¶ 27).

The GET Gas Rider is consistent with the important public policy of expanding the availability of natural gas. The Commission's Chairman Gladys M. Brown Dutrieuille noted the positive attributes of both GET Gas as well as natural gas expansion in general:

A number of things are very clear about natural gas – Pennsylvania has an abundant supply; homeowners and businesses across the state are lining up for access; and the PUC continues to challenge utilities to help more consumers tap into this lower-cost and cleaner-burning fuel. Programs like UGI's GET Gas initiative have been strongly encouraged by the Commission, and it is a pleasure to see yet another Pennsylvania energy success story moving forward.

(UGI Gas St. No. 9-R, p. 10 (citing Chairman Gladys M. Brown Dutrieuille, Keynote Remarks May 11, 2015)).

UGI Gas submits that this Settlement provision is in the public interest because it continues the GET Gas program, which makes access to natural gas service available at a reasonable cost to many customers who otherwise would not be able to access service.

f. Universal Service Program Rider

UGI Gas is permitted to recover costs for each of its universal service programs under its Universal Service Program (“USP”) Rider with an annual reconciliation for costs and recoveries. There is an offset for Customer Assistance Program (“CAP”) credits and pre-program arrearages for customers receiving shortfall credits that exceed the CAP customer enrollment projected in each rate district’s last base rate case. (UGI Gas St. No. 10, p. 13). This offset reduces the Company’s recovery of CAP spending above projected enrollment to account for write-offs of bad debt that would have arguably occurred if not for CAP. (UGI Gas St. No. 10, p. 13). UGI Gas proposed that the projected consolidated CAP enrollment to be used for the offset be 21,530 customers. (UGI Gas St. No. 10, p. 13).

OCA did not agree with the Company’s proposal, and specifically objected to the Company’s use of 21,530 customers. The OCA proposed to use 18,600 customers in the equation. OCA’s witness testified that the use of 18,600 customers represented average participation for the 12 months ending February 2019, and seemed more appropriately aligned with the Company’s expected CAP growth projections. (OCA St. No. 4, pp. 21-22).

The Joint Petitioners have agreed to accept the Company’s proposed USP Rider. (Settlement ¶ 28). However, the CAP credit offset will be applied where CAP enrollment exceeds 19,672 CAP customers rather than the Company’s proposed level of 21,530. (Settlement ¶ 28). The final customer enrollment number is a reasonable compromise between the positions supported by OCA and the Company.

g. Tax Cuts And Jobs Act

As part of its direct case, UGI Gas proposed to flow back January through June 2018 tax savings with interest associated with the Tax Cuts and Jobs Act. (UGI Gas St. No. 11, pp. 4-6). No party opposed the Company’s proposal and settlement Paragraph 29 adopts the Company’s

proposal. This Settlement provision is in the public interest because the Company will continue the application of a uniform negative surcharge of -4.72% applicable to all rate classes for the return of the January through June 2018 amount, subject to interest and reconciliation mechanisms. (UGI Gas St. No. 8, pp. 23-24) (rate adjusted to reflect the impact of the lower agreed upon revenue increase compared to the Company's proposed increase in its direct case).

h. Purchased Gas Cost Revenue Adjustment

As part of its direct case, the Company identified two PGC errors that occurred in 2008 that were recently discovered by the Company. (UGI Gas St. No. 4, p. 22). The Company proposed to refund the principal and one year of interest associated with this net overcollection. Witnesses for I&E and OCA agreed that a refund would be appropriate, but disagreed on the amount of interest that should be refunded. (I&E St. No. 1, p. 50; OCA St. No. 3, p. 46). OCA also proposed that the issue be addressed in the Company's 2019 PGC proceeding, rather than the rate case. (OCA St. No. 3, p. 46).

The parties have agreed that this issue will be addressed in the Company's ongoing PGC proceeding at Docket No. R-2019-3009647. (Settlement ¶ 30). Doing so will provide a timely resolution of the issue, in the same proceeding in which the principal and interest were generated.

i. ACH/Credit Card Fee Waiver

The Company proposed to eliminate fees associated with customers who use their credit card to pay their monthly bill. (UGI Gas St. No. 10, pp. 6-11). While there was some disagreement from I&E and OCA regarding the cost of the proposal (I&E St. No. 1, pp. 32-39; OCA St. No. 1, pp. 32-33), all parties agreed that elimination of the fee was in the public interest. (UGI Gas St. No. 10, pp. 9-11; I&E St. No. 1, p. 35; OCA St. No. 1, pp. 32-33; CAUSE St. No. 1 pp.40-41). As a result, the Joint Petitioners have agreed to adopt the Company's proposal to

eliminate ACH/Credit Card fees. (Settlement ¶ 31). The cost recovery issues involved with this proposal are a component of the black box settlement.

D. ENERGY EFFICIENCY AND CONSERVATION PLAN

Currently, the Company manages voluntary natural gas EE&C Plans for its North Rate District and South Rate District, but the Central Rate District does not have an EE&C Plan. In this proceeding, UGI Gas proposed a Consolidated EE&C Plan based on the existing EE&C Plans for the South and North Rate Districts. This Consolidated EE&C Plan would run for five years and extend the Company's natural gas EE&C offerings to the Central Rate District as well. (UGI Gas St. No. 13, pp. 3, 8-9; UGI Gas Exhibit TML-2).

UGI Gas's proposed energy efficiency programs are projected to reduce energy consumption by 7,016 Billion British Thermal Units ("BBtus") over the lifetime of the installed measures. (UGI Gas St. No. 13, p. 3). Collectively, the programs are estimated to provide \$67.86 million in net total resource benefits with an overall Total Resource Cost ("TRC") benefit-cost ratio ("BCR") of 1.65. (UGI Gas St. No. 13, p. 3).

Several parties made recommendations and raised issues concerning the proposed EE&C Plan. (OCA St. No. 4, pp. 58-64; OCA St. No. 5; CAUSE-PA St. No. 1, pp. 41-49; CEO St. No. 1, pp. 11-13; OSBA St. No. 1, pp. 32-37).

The Joint Petitioners have agreed that the Company's EE&C Plan should be approved as revised in the Settlement. (Settlement ¶ 32). The EE&C Plan, as revised, represents the results of the Joint Petitioners' extensive settlement discussions and good-faith compromises. As a whole, the EE&C section of the Settlement constitutes a reasonable compromise of the Joint Petitioners' competing positions and resolves all issues related to UGI Gas's proposed EE&C Plan. It also provides refinements and improvements to the proposed plan and, to a substantial degree, addresses the concerns raised by the parties. Most critically, by approving the

Consolidated EE&C Plan, all of UGI Gas's customers will benefit by being able to participate in the Company's EE&C programs.

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 Dutrieuille 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... 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 Dutrieuille 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 Gas's proposed EE&C Plan, as modified by the Settlement, is just and reasonable and should be approved without modification.

1. Evaluation Costs.

As part of its filing, UGI Gas proposed to allocate costs in its EEC Rider to the rate classes that have generated those costs for the purposes of cost recovery. (*See generally* UGI Gas St. No. 9, pp. 11-14; UGI Gas St. No. 13; UGI Gas Exhibit TML-2). OCA produced

testimony agreeing that there is no cross-subsidization under the EEC Rider. (OCA St. No. 5, p. 7).

As a result, Joint Petitioners have included in the Settlement a term which provides that EE&C evaluation costs will be allocated amongst all rate classes for ratemaking recovery as they are incurred. (Settlement ¶ 33). This provision of the Settlement is in the public interest because it will help ensure that there will not be cross-subsidization within the EE&C program.

2. Program Budgets.

As part of the proposed EE&C Plan, the Company proposed a fully flexible program wherein it would retain discretion to move funds between programs or rate classes to improve the effectiveness of the overall plan. (*See generally* UGI Gas St. No. 13; UGI Gas Exhibit TML-2). OCA, in particular, recommended that any funds shifted between programs within the same customer class be limited to 25% of a program's total budget and that UGI Gas should inform the Commission and stakeholders of any budget changes beyond that 25% so they can comment on such changes. (OCA St. No. 5, p. 12). In its rebuttal testimony, UGI Gas focused on the benefits of providing notification if the residential or non-residential sector budgets will be 25% lower than the Plan's five-year budget. The Company considered such a change to be a material change, as would elimination of a program, and would provide notification consistent with the procedures outlined in its EE&C Plan. (UGI Gas St. No. 13-R, pp. 8-9).

The Settlement provides that EE&C program budgets will be restricted so that program funds cannot be moved between residential and nonresidential rate classes. Budget flexibility within a rate class' portfolio should be limited to twenty-five (25) percent of a program's five-year total budget. The parties agree that the Company will petition the Commission for approval of changes of twenty-five (25) percent or more of a five-year total program budget within a rate class. (Settlement ¶ 34). The Joint Petitioners were able to reach an agreement that balances the

Company's need for flexibility with OCA's desire for accountability and transparency. This balance will allow the Company to continue to use its EE&C funds in a way that produces beneficial results to ratepayers and the Commonwealth of Pennsylvania.

3. Low-Income Issues

The OCA submitted testimony that the Company's EE&C program has insufficient measures directed toward low-income customers and effectively will result in low-income customers being excluded from participation. (OCA St. No. 4, pp. 59-60). Specifically, the OCA proposed that the \$100 assessment fee waiver for the Residential Retrofit Program should be offered to all low-income customers meeting the Low-Income Usage Reduction Program ("LIURP") income requirement of 200% of the FPL or below, not just the low-income customers who do not qualify for LIURP. (OCA St. No. 5, pp. 9-11) CAUSE-PA claimed that UGI Gas's EE&C program lacks specific, targeted low income programming. (CAUSE-PA St. No. 1, pp. 41-49).

In rebuttal, the Company explained that it already offers LIURP, which is designed to improve low-income customers' energy efficiency. Mr. Hart testified that there is no administrative benefit to collecting funds through a rider intended to recover costs for the Company's EE&C Program when the purpose of such collection is to transfer those funds to a separate Company department that manages its LIURP. (UGI Gas St. No. 9-R, pp. 6-8). Doing so merely creates the potential opportunities for errors in fund administration with no recognized benefit, so it would be appropriate to move the collection of this funding from the EEC Rider to the USP Rider. (UGI Gas St. No. 9-R, pp. 6-8).

In recognition of the parties' concerns that utilizing the EEC Rider to generate revenues to contribute to LIURP, rather than programs targeted at low-income customers, Settlement Paragraph 35 serves to discontinue recovery of \$100,000 of LIURP funding through UGI Gas's

EEC Rider. This provision is in the public interest because ceasing the collection of LIURP funds from the EE&C Rider reduces potential administrative complications and inefficiencies resulting from the internal transfer of funding from the EE&C program to LIURP. (UGI Gas St. No. 9-R, pp. 6-8).

In addition, as part of the Settlement, the parties agreed that customers who contact the UGI LIURP Team and who are determined by the UGI LIURP Team to have income at or below two hundred (200) percent of FPL, but who do not meet LIURP high-energy usage thresholds, or who request direct install measures not offered by LIURP but offered by the EE&C Residential Retrofit (“RR”) Program, will be referred to the RR Program to receive a fee-waived assessment. The RR assessment fee waiver provided to low-income customers, including all direct install measures implemented under a fee-waived assessment, will be capped at \$250,000 annually. While there is no specific low-income carve out in the Company’s EE&C programs, the fee waiver serves to make this program more accessible to low-income customers. Further, it is not duplicative of LIURP, since many of the measures in the RR Program are not measures available under LIURP. Direct install measures will include, but not be limited to: smart thermostats, low flow devices, and water heater tank temperature setback.

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. Thus, these provisions are reasonable and in the public interest and should be approved without modification.

E. UNIVERSAL SERVICE AND OTHER LOW INCOME ISSUES

UGI Gas did not propose any changes regarding the administration or services provided by the universal service programs in this distribution base rate proceeding. (UGI Gas St. No. 10, p. 12). Importantly, the Company filed a revised Universal Service and Energy Conservation

Plan (“USECP”) on June 30, 2017, at Docket No. M-2017-2598190 for the period of January 1, 2018 through December 31, 2020. (UGI Gas St. No. 10, p. 11).

UGI Gas proposed to merge the USP Rider into one uniform cost recovery program, *i.e.* creating a single budget for the programs from the three rate districts rather than maintaining separate budgets by rate district. (UGI Gas St. No. 10, p. 12). UGI Gas explained that, from time to time, it had faced challenges in spending all of its program budgets for one or more rate districts and that having one budget for all rate districts would increase flexibility to utilize funds based upon need. (UGI Gas St. 10, pp. 12-14).

Several Parties to this proceeding recommended structural changes to UGI Gas’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 the Company believes are largely unrelated to the proposed rate increase and could have been raised in the Company’s pending USECP filing. (*See* UGI Gas St. 10-R, pp. 21-38).

The Universal Services provisions of the Settlement represents the results of the Joint Petitioners’ extensive settlement discussions and good-faith compromises. While UGI Gas believes that these issues would be more appropriately addressed in its next triennial Universal Service Program filing,⁶ in settlement, the Company agreed to address and adopt certain proposed changes to UGI Gas’s Universal Service programs.

⁶ 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).

1. Use of Community Based Organizations

UGI Gas did not propose any changes to the manner in which it utilizes Community Based Organizations (“CBOs”) as a part of its Universal Service Programs. CEO and CAUSE-PA raised concerns about the continued use of CBOs, and the manner in which the Company would budget or allocate funds to CBOs as a result of the consolidated USP Rider. (CEO St. No. 1, pp. 12-13; CAUSE-PA St. No. 1, pp. 27-30).

In the Settlement, UGI Gas commits to maintaining its existing business relationship with CBOs, subject to each individual CBO’s continued performance in conformance with the Company’s USECP rules and its contract with the Company. (Settlement ¶ 37). This Settlement provision is in the public interest because it will continue the Company’s use of these organizations as an important link between the Company’s low-income programs and the low-income customers served by those programs.

2. Universal Service Program Funding

OCA, CAUSE-PA and CEO each raised concerns regarding the funding of the Company’s Universal Service programs under a consolidated USP Rider and/or made specific proposals to increase the funding of certain programs. (*See* OCA St. No. 4, pp. 19-23; CAUSE-PA St. No. 1, pp. 26-41; CEO St. No. 1, pp. 9-10).

While the Company explained that these concerns about inequitable allocation of Universal Service program funds were unwarranted (*see* UGI Gas St. No. 10-R, pp. 26-27), the Settlement provides that the Company will implement a consolidated Universal Service program budget that maintains its current funding allocations as proposed in its pending USECP at Docket No. M-2017-2598190 across the geographic footprint of its former three rate districts unless and until a new allocation is proposed and approved as part of its next triennial USECP filing. (Settlement ¶ 38). In addition, the Settlement caps the amount of funding the Company is

permitted to re-allocate between the geographic territory served by its former rate districts at five (5) percent and provides a process for the Company to notify parties of funding allocation changes and for parties to comment on the consolidated Universal Services budget. *Id.* This provision is in the public interest because it will ensure the Company continues to adequately fund its Universal Service programs in the portion of the territory served by each of its former rate districts and that funds will not be unreasonably or improperly shifted between the areas served by the former rate districts.

Moreover, the Settlement continues to roll-over any unspent dollars in the LIURP and Hardship Fund programs between program years. (Settlement ¶ 39). This provision is in the public interest because it ensures that the dollars budgeted for these programs are spent and that any underspent funds are ultimately used to provide important services to low-income customers.

3. LIURP Budget

CEO recommended an increase to the annual LIURP budget for the three rate districts of \$650,000. (CEO St. No. 1, pp. 9-10). OCA recommended that \$450,000 be transferred from the Company's EE&C Program to the LIURP program. (OCA St. No. 4, p. 65; OCA St. No. 5, pp. 6-7). CAUSE-PA recommended that the Company increase its LIURP funding by (1) a percentage proportional to the percent increase in rates adopted in the proceeding and (2) an amount equal to the estimated amount collected from low-income customers under the EE&C rider, *i.e.* approximately \$739,630 across the three districts. (CAUSE-PA St. No. 1, pp. 18-19, 48-49).

In rebuttal, the Company explained that LIURP funding should not be increased as a part of this base rate proceeding. The Company further explained that the better approach would be to implement the LIURP funding levels specified in the currently-pending USECP (after those budgets are approved by the Commission) before seeking further budgetary increases to LIURP

and to allow for proposed increases to LIURP in its next USECP filing. (UGI Gas St. No. 10-R, pp. 23-24).

In the Settlement, the Joint Petitioners agree that UGI Gas will increase annual LIURP funding by \$400,000, effective January 1, 2020, and that UGI Gas will roll-over unspent LIURP funds for the following year(s). (See Settlement ¶¶ 39-40). LIURP weatherization projects help low-income customers reduce their natural gas usage and lower their monthly bills. This Settlement provision will allow UGI Gas to continue to increase the annual number of LIURP weatherization jobs it performs, while fully recovering the costs of administering the program.

4. Furnace Repair/Replacement Initiative

CAUSE-PA recommended that UGI Gas expand the Furnace Repair initiative under its LIURP program to all three rate districts and to include service line repair measures. In addition, CAUSE-PA recommended that the Company budget separate amounts to each rate district, and that service lines be included in the repair program. (CAUSE-PA St. No. 1, pp. 38-40).

The Company disagreed with this recommendation for the same reasons it disagreed with the Parties' proposals regarding budget increases to the general LIURP budget. Moreover, with respect to CAUSE-PA's concerns regarding service line repairs, the Company explained that it owns the service lines to the houses in its service territory and maintains them in accordance with gas safety regulations and other risk criteria. (UGI Gas St. No. 10-R, pp. 25-26).

In the Settlement, the Joint Petitioners agreed that UGI Gas will increase its aggregate Gas LIURP budget by \$100,000 per year to provide additional funding for its Emergency Furnace Repair initiative and permit all eligible customers throughout the service territory to participate. (Settlement ¶ 41). This provision is in the public interest because it will allow UGI Gas to continue to expand the repair and replacement of gas furnaces throughout its service

territories, thereby increasing the safety and reliability of service provided to low-income customers.

5. Third Party Notification

OCA recommended the expansion of the Company's Third Party Notification ("TPN") program based on concerns OCA raised regarding the Company's collection performance. (OCA St. No. 4, pp. 39-49). In its rebuttal testimony, the Company provided an overview of the TPN program and explained that OCA's justifications for its proposal were unsupported. (UGI Gas St. No. 10-R, pp. 33-34).

In the Settlement, the parties agreed that UGI Gas will provide TPN forms to its CBOs for inclusion in their assistance applications and, to the extent that CBOs charge UGI Gas for use of these TPN forms, UGI Gas will be permitted to recover these costs through the USP Rider. (Settlement ¶ 42). The provision reflects a balancing of interests and is a reasonable compromise that will expand the use of TPN practices, while permitting UGI Gas to recover potential cost increases associated with the expansion of this practice.

6. Cold Weather Protection

OCA argued that UGI Gas's methods for qualifying customers for low-income protections during the winter moratorium were too restrictive. (OCA St. No. 4, pp. 49-55). UGI Gas explained in rebuttal testimony that its tariff language was consistent with the agreed upon language from UGI Gas South's 2016 Gas Rate Case⁷ and also compliant with the Commission's requirements. The Company uses self-reported income provided by the customer, on any call, to determine whether the account will flow through the winter termination process. As such, the

⁷ *Pennsylvania Public Utility Commission v. UGI Utilities, Inc. - Gas Division, Office of Consumer Advocate, Office of Small Business Advocate, UGI Industrial Intervenors, Joseph P. Sandoski and Vicki L. East Tom Harrison v. UGI Utilities, Inc. - Gas Division*, Docket Nos. R-2015-2518438, C-2016-2527150, C-2016-2528559, C-2016-2529436, C-2016-2529638, C-2016-2534010, and C-2016-2534992.

Company took the position that no additional changes to the Company's practices were necessary. (UGI Gas St. No. 10-R, pp. 35-36).

In the Settlement, the Joint Petitioners agreed that UGI Gas will amend its tariff language on cold weather protection to adopt the language from the Columbia Gas of Pennsylvania tariff. (Settlement ¶ 43). This provision is in the public interest because it will enhance the income verification process and provide benefits to customers, in addition to those already provided under UGI Gas's current tariff language.

7. Government Identification

CAUSE-PA raised concerns regarding the Company's customer identification practices, with respect to the form of identification required to initiate service. Specifically, CAUSE-PA argued that UGI Gas was not complying with prior settlement provisions that required it to recognize government ID's issued by foreign governments as valid identification for purposes of initiating service. (CAUSE-PA St. No. 1, pp. 22-24). While UGI Gas was fully compliant with the prior settlement and accepted identification issued by "Federal, State, or Local Governments" without restricting the eligible governments to the United States, the Company nonetheless proposed to revise its identification policy in rebuttal testimony to make it abundantly clear that foreign government-issued identification would be accepted. (UGI Gas St. No. 10-R, pp. 32-33; *see also* UGI Gas Exhibit DVA-2R).

Paragraph 43 of the Settlement reflects the Company's commitment to accept foreign government-issued identification and remove any ambiguity regarding whether such identification will be accepted from its tariff. (Settlement ¶ 43). This provision is in the public interest because it continues the Company's commitment to promptly initiating service to its customers when it is provided with valid identification.

8. Security Deposit Issues

CAUSE-PA raised concerns regarding the Company's low-income security deposit waiver practices. Specifically, CAUSE-PA argued that UGI Gas was not complying with a prior settlement commitment by allegedly requiring customers to enroll in the CAP in order to have a security deposit waived. (CAUSE-PA St. No. 1, pp. 22-24). The Company's rebuttal testimony made clear that it does not require a customer to enroll in CAP to obtain a security deposit waiver; rather, a low-income customer could verify their income *or* enroll in CAP to obtain the waiver. (UGI Gas St. No. 10-R, pp. 29-31). As such, the Company's security deposit waiver practices were consistent with the prior settlement and the Commission's regulations.

The Joint Petitioners agreed in the Settlement that UGI Gas will (1) revise its letter, as well as its call scripts, training materials and other written policies and procedures to clarify that enrollment in CAP is not a requirement to obtain a security deposit waiver and (2) clarify the steps that the customer must take to obtain a security deposit waiver. (Settlement ¶ 44). In addition, the Settlement provides for the review of these materials at the Company's annual Universal Service Program Collaborative Meeting. *Id.* The Settlement also provides that UGI Gas will review currently held security deposits each month and will issue a bill credit or refund for any deposit previously collected from a confirmed low income customer, until programming to its billing system is complete and operationalized to automate this process. (Settlement ¶ 45).

These Settlement provisions are in the public interest because they further clarify the Company's procedures for providing security deposit waivers to customers and ensure that any security deposits collected from low-income customers are promptly returned to them.

9. Quarterly CAP Plan Rate Review

CAUSE-PA argued that UGI Gas does not have a system to periodically review payment plans to determine whether a more beneficial rate (*i.e.* either an average bill or percent of income

rate) is available, and should implement a system to conduct this review on a monthly basis. (CAUSE-PA St. No. 1, pp. 34-36). While CAUSE-PA acknowledged that UGI Gas had a process in place by which a customer could initiate a review to determine whether a more beneficial CAP rate is available, CAUSE-PA argued that the onus should not be on the customer to initiate this review. (CAUSE-PA St. 1, p. 35).

The Company explained in its rebuttal testimony that it was unnecessary for the Company to create a new system program to periodically review a low-income customer's income level or payment ability because it already has many ways that permit a low-income customer to provide current income information to the Company or one of its CBOs. In addition, during the CAP re-certification process, a CAP rate available to a customer is reviewed and, if necessary, the customer will be placed on a more beneficial rate at that time. (UGI Gas St. No. 10-R, pp. 10-11).

The Settlement includes a provision whereby UGI Gas will, on a quarterly basis, review CAP rates for those enrolled in the average bill or percentage of income CAP rate plans to determine whether a more affordable rate plan is available. (Settlement ¶ 47). In addition, UGI Gas will be permitted to recover any just and reasonably incurred Information Technology costs associated with formalizing this practice in its customer billing system through its USP Rider, such costs being capped at \$125,000. *Id.*

This provision is in the public interest because it reflects a reasonable compromise of competing interests. As such, the Settlement strikes a balance between the implementation of beneficial, periodic CAP rate reviews, with the need to recover the reasonably incurred costs necessary to implement these reviews.

10. Budget Billing

OCA recommended that UGI Gas allow customers with arrears to enter into budget billing (for current charges) and receive a payment agreement (for arrearages). (OCA St. No. 4, pp. 37-38). The Company explained it already permits low-income customers to have payment arrangements that involve a budget bill component for current charges and an installment plan for arrearages, but does not permit customers to have additional payment terms after two payment agreements are broken (and not subsequently reinstated). (UGI Gas St. No. 10-R, pp. 28-29). As such, the Company took the position that no further revisions to the Company's budget billing practices were necessary.

The Joint Petitioners agreed in the Settlement that UGI Gas will eliminate its restriction on Budget Billing enrollment that bars the enrollment of customers in arrears in Budget Billing and that any arrearage balance and payments towards the arrearage balance will be accounted for separately from the customer's Budget Bill amount. (Settlement ¶ 48). This provision is in the public interest because it provides additional customers access to Budget Billing. Moreover, the requirement that the arrearage balance and payments toward that balance will be separately accounted from the Budget Bill amount ensures a customer receives the benefits of Budget Billing while fully paying-off any arrears on their account.

F. TRANSPORTATION PROGRAM

As a result of the merger, UGI Gas created an internal team that reviewed the reliability requirements of a unified UGI Gas system, and that identified discrepancies in Choice and Non-Choice transportation rules and practices between rate districts and considered potential solutions. (UGI Gas St. No. 12, p. 7). After completing the internal review, the team then developed an initial strawman proposal for unified transportation rules that was presented at a September 30, 2018 collaborative, to get feedback from interested stakeholders. (UGI Gas St.

No. 12, p. 7). The results of this collaborative process to develop a uniform transportation program were presented as a part of the Company's direct case in this proceeding.

The Joint Petitioners have agreed that, except as specifically modified by this Settlement, the Company's proposed Choice and Non-Choice transportation program rules are approved and will become effective November 1, 2019, in the case of the Choice transportation program and November 1, 2020, in the case of the Non-Choice transportation program. (Settlement ¶ 50).

a. Delivered Supply Service

Delivered Supply Services play an important role in the Company's ability to supply the firm requirements of the Company's Core Market Customers. They provide the Company the right to purchase from zero dth to a maximum daily quantity of natural gas supplies each day with an associated daily deadline for UGI Gas to notify its supplier. NGSs that serve Choice customers receive access to the Company's Delivered Supply Services. (UGI Gas St. No. 12-R, p. 20).

The Joint Petitioners have agreed that, effective November 1, 2020, the Company will make necessary tariff changes in its compliance filing in this case to allow deliveries of delivered supply service available to an NGS under the Choice program to be used to meet its Non-Choice delivery requirements to the extent the delivered supply capacity is not needed to serve a NGS's Choice load. (Settlement ¶ 51). By allowing NGSs the ability to use underutilized Choice delivered supply service for Non-Choice deliveries, the NGSs will have more options available to them to provide the least possible cost supply for the customers they serve in the Non-Choice transportation market on UGI Gas's system.

b. Non-Choice Daily Balancing

In its direct case, the Company proposed to merge the existing daily balancing tolerances. Currently, daily imbalances of up to ten percent (10%) are permitted in the UGI South Rate

District, whereas imbalances of up to two and one-half percent (2.5%) are permitted in the UGI North and Central Rate Districts. (UGI Gas St. No. 12, pp. 11-12). UGI Gas proposed to consolidate this balancing service to a system-wide four and one-half percent (4.5%) daily balancing tolerance. (UGI Gas St. No. 12, pp. 11-12). The revised four and one-half percent (4.5%) threshold reflects a weighted average of current daily imbalance allowances, which means that when UGI Gas is managing daily imbalances system-wide it should not need to procure any meaningful new gas supply resources to handle such swings above current aggregate levels. (UGI Gas St. No. 12, pp. 11-12).

NGS/RESA provided testimony in opposition to the Company's proposed use of 4.5%. (NGS/RESA St. No. 1, pp. 7-9). Rather than using a 4.5% imbalance, NGS/RESA supported the adoption of a 6% threshold. (NGS/RESA St. No. 1, p. 8). Direct Energy similarly proposed an increase in the threshold, to 5.8%. (DE St. No. 1, p. 12). In rebuttal testimony, the Company did not agree with the proposals to adjust the imbalance threshold, because it would over-state the quantity of daily balancing service that the Company currently provides to transportation customers. (UGI Gas St. No. 12-R, p. 14). Further, increasing the balancing to 5.8% or 6% would require the Company to acquire additional gas supply assets, which would come at an additional cost that no party has factored into this proceeding. (UGI Gas St. No. 12-R, p. 14).

The Joint Petitioners have agreed that, effective November 1, 2020, the applicable daily balancing tolerance shall be four and one-half (4.5) percent. (Settlement ¶ 52). This represents a result supported by the record evidence presented.

c. Rate NNS

The Company's filing included rates for No Notice Service ("NNS"). Rate NNS is currently an optional daily balancing service offered by the Company to Non-Choice transportation customers. It allows a customer to elect a balancing tolerance greater than the

standard basic balancing provided by the Company. A customer is able to make a Rate NNS election up to its Daily Firm Requirement (“DFR”) or Maximum Daily Quantity (“MDQ”) contract demand level. (UGI Gas St. No. 8, pp. 32-33). The Company proposed to merge its existing daily balancing tolerances for its rate districts into a unified tolerance of 4.5%. (UGI Gas St. No. 8, p. 33). UGI Gas Exhibit DEL-9 showed the calculation of the combined NNS charge as proposed in this proceeding.

OCA proposed that PGC and Choice customers receive a contribution toward fixed costs associated with the storage assets utilized to provide NNS service and that the storage trip charge should be adjusted to include the demand charges associated with providing service under NNS. (OCA St. No. 3, pp. 40-41). In its rebuttal testimony, the Company opposed the OCA’s proposal, stating that it would be inappropriate to include firm service demand costs because the service provided under Rate NNS, in excess of the base amount of 4.5%, is provided on an interruptible basis. (UGI Gas St. No. 8-R, p. 24). If the OCA’s cost allocation were adopted, the provision of NNS would need to be transformed into a firm service offering and the Company would need to acquire additional balancing assets. (UGI Gas St. No. 8-R, p. 24).

The Settlement resolves the issues raised by the OCA regarding Rate NNS with a reasonable compromise. The Joint Petitioners have agreed that the Company will adjust the storage trip cost in the calculation of Rate NNS charges to \$0.3483 per Mcf. (Settlement ¶ 53). The resulting Rate NNS charges are provided in Paragraph 53. These rates provide a contribution toward fixed costs associated with the storage assets, consistent with OCA’s testimony. Further, the Company agreed to clarify the tariff to show that Rate NNS service elections in excess of 4.5% are interruptible. (Settlement ¶ 53). The clarification will ensure that customers are aware of the specific limitation of the Rate NNS service.

d. Rate MBS

Rate MBS is a monthly balancing service offered by the Company that allows transportation imbalances of up to 10% for the month to be carried forward in the customer's MBS account for delivery of excess deliveries, or receipt of shortfalls, in subsequent months. (UGI Gas St. No. 8, p. 34). UGI Gas Exhibit DEL-10 provided the basis for the Rate MBS calculations, as well as the proposed MBS rates under Rates DS, LFD, and XD.

OCA submitted testimony supporting a proposal that costs included in development of MBS should include daily deliverability demand charges and that the monthly imbalance percentage in the calculation of MBS be increased to 5% to reflect the additional up-to 5 percent monthly imbalance tolerance provided under the Tariff. (OCA St. No. 4, pp. 42-43). UGI Gas opposed OCA's proposed change to Rate MBS. (UGI Gas St. No. 8-R, p. 24). The Company stated that it utilized the actual historic average monthly imbalance for the development of the charge, which it believed to be more appropriate than using the hypothetical maximum to derive cost causation. (UGI Gas St. No. 8-R, p. 24). Currently the actual imbalance percentage is 1.54%, and it was this percentage that was used to develop the proposed Rate MBS. (UGI Gas St. No. 8-R, p. 24). A 5% percentage would significantly overcharge Rate MBS customers for the service being provided. (UGI Gas St. No. 8-R, p. 24).

The Joint Petitioners have agreed to two specific changes to the calculation of Rate MBS. First, OCA's proposed inclusion of storage demand charges on a 100 percent load factor basis in the development of the rate will be adopted. (Settlement ¶ 54). The resulting initial Rate MBS charges are identified in Paragraph 54 of the Settlement. The Settlement rates are in the public interest because they address the OCA's cost causation concerns. Second, the Company will update the average monthly imbalance utilized in the development of Rate MBS charges annually with the actual average monthly imbalance for the 12-month period ending September

to determine the new Rate MBS charges effective December 1 each year. The Company will include the new Rate MBS charges as part of its annual PGC compliance filing. (Settlement ¶ 54). These steps ensure that Rate MBS consistently reflects actual customer use, and is reviewable by the parties on an annual basis.

e. Acceptable Substitute Delivery Points

In addition to the Company's major supply sources, the Company receives natural gas supplies from local production wells, gathering systems, and other pipelines. As part of its direct case, the Company proposed that these additional supply sources ("Acceptable Substitutes") may be used to fulfill a required interstate pipeline delivery for Non-Choice transportation deliveries. A summary of the Acceptable Substitutes was included as UGI Gas Exhibit AMB-6.

NGS/RESA and Direct Energy both opposed the inclusion of two of the identified Acceptable Substitutes: the Sunbury Pipeline and the Mt. Bethel Pipeline. Direct Energy expressed concerns that allowing Sunbury and Mt. Bethel Acceptable Substitute Delivery Point Status would give UGI Gas's affiliated marketer an advantage over other natural gas suppliers. (DE St. No. 1, pp. 4-11). These included the impact of the price differential and the inability for other suppliers to obtain capacity on both of the pipelines. (DE St. No. 1, pp. 7; 9-10). NGS/RESA raised similar concerns in its testimony (NGS/RESA St. No. 1, pp. 15-21).

The Company provided extensive testimony responding to these claims. (UGI Gas St. No. 12-R, pp. 1-12). Specifically the Company described the Open Season process and the opportunity that all suppliers had to obtain capacity on these pipelines. (UGI Gas St. No. 12-R, pp. 2-3; 8-9). UGI Gas also identified how these pipelines provide needed supplies that address the Company's service obligations, and how the merger has impacted the use of these sources of supply. (UGI Gas St. No. 12-R, pp. 3-5). The Company identified the benefits of alternative sources of supply, including the added reliability in the event of an incident of force majeure on

an existing supply source. (UGI Gas St. No. 12-R, p. 7). Finally, UGI Gas produced significant evidence that the claims regarding price differential were not accurate. (UGI Gas St. No. 12-R, pp. 10-12).

The Joint Petitioners have agreed that Company's proposal is accepted with the following qualifications. First, the Company will delay implementation of the interconnections with the Sunbury Pipeline and Mt. Bethel Pipeline as Acceptable Substitute Delivery Points for Non-Choice transportation customer deliveries until November 1, 2023, provided that those points may be used for purchased gas cost obligations and Choice related peaking and delivered services. (Settlement ¶ 55). Second, UGI Gas shall provide written notice on its Gas Management Website of any proposed interconnection points within thirty (30) days of the execution of an Interconnection Agreement with the Company where the interconnecting entity elects to have the Interconnection Point included as an Acceptable Substitute Delivery Point. Such notice will include a posting of the interconnecting entity's name and contact information with the express goal of allowing NGSs sufficient opportunity to consider adjustments to their supply plans. (Settlement ¶ 55).

These settlement provisions are in the public interest because they provide a better competitive environment for customers, without limiting the Company's ability to meet its basic supply needs, particularly during peak winter periods. Further, these terms will provide more transparency and clarity as the Company continues to look for ways to provide more supply sources into its system in order to provide access to lower cost gas to customers.

f. Capacity Assignment

UGI Gas's direct case included proposed uniform rules for capacity assignment that essentially adopt rules prevailing in the current North Rate District and extend them to areas encompassed in the current South and Central Rate Districts. (UGI Gas St. No. 12, p. 14).

These rules help smaller transportation customers obtain access to primary firm transportation capacity and help UGI Gas ensure that large numbers of smaller volume customers will not violate balancing tolerances (and potentially need to be physically disconnected from the UGI Gas system to maintain system reliability) in the event interstate pipeline deliveries to secondary delivery points are curtailed, which is an increasingly common occurrence. (UGI Gas St. No. 12, p. 14).

OCA submitted direct testimony addressing the Company's proposal. (OCA St. No. 3, pp. 43-45). OCA did not agree with the Company's proposal, including the ability of Rate DS, LFD, and XD customers to have preferential access to UGI Gas's lower cost capacity resources with PGC and Choice transportation customers being held responsible for the higher demand charges associated with the Company's peaking service contracts. (OCA St. No. 3, pp. 44-45). OCA also proposed that the Company's WACOD should be revised to include peaking contract demand charges. (OCA St. No. 3, p. 44). Finally, OCA proposed that Rate XD customers should be assessed charges for released capacity based on the revised WACOD calculation at the time their contracts expire. (OCA St. No. 3, p. 45).

UGI Gas disagreed with the OCA's proposal for the following reasons: (1) the cost of capacity charged to large transportation customers is equitably based on the services used by those rate classes; (2) OCA's recommendation would require renegotiation of large transportation service agreements, which were negotiated based on the current capacity charge methodology that has been in place since prior to UGI's 1995 base rate proceeding at Docket No. R-00953297; and (3) increasing capacity charges could result in Rate XD customers with competitive alternatives leaving the Company's distribution system. (UGI Gas St. No. 12-R, p. 22).

After extensive negotiations on the issue of Capacity Assignment, the Joint Petitioners have agreed, on a pilot basis, to modify the weighted average cost of demand (“WACOD”) charges for Rates DS and LFD who utilize PGC capacity and to provide a crediting mechanism for benefits associated with the commodity value of purchases using the capacity. (Settlement ¶ 56). The terms agreed upon in the Settlement reflect a balancing of the interests of all parties, including concessions made by all sides. The Company believes that these terms will ensure a process and rate that are equitable to all customers. In addition to the Settlement terms modifying the WACOD, the Company’s capacity assignment proposals for Rate XD are accepted as filed. (Settlement ¶ 56).

g. Non-Choice Excess Monthly Imbalance

UGI Gas’s imbalance and cash-out provisions were reviewed in the context of its development of proposed unified Choice and Non-Choice transportation rules during the September 30, 2018 collaborative. (UGI Gas St. No. 12, p. 13). The Company did not propose any changes to the monthly balancing tolerances, which are currently set at ten percent (10%) for each Rate District, or the policies around the cash-out process. (UGI Gas St. No. 12, p. 13).

NGS/RESA proposed adjustments to the Company’s cash-out policies in its direct testimony. (NGS/RESA St. No. 1, pp. 9-13). Ms. Greenholt-Tasto stated that she believed that the current system used by the Company, which involves the cash-out of the entire bank when the bank exceeds the 10% threshold, is punitive in its pricing methodology, and that taking the entire bank causes the supplier to be doubly harmed. (NGS/RESA St. No. 1, p. 10). She proposed that UGI Gas should be required to stop zeroing-out the customer’s full balancing bank and only do so with the portion that is outside the tolerance band. (NGS/RESA St. No. 1, p. 11). While Direct Energy did not file any direct testimony on this topic, it supported the NGS/RESA position in its rebuttal testimony. (DE St. No. 1-R, p. 3).

The Company did not agree with the NGS/RESA proposal. (UGI Gas St. No. 12-R, p. 19). The Company noted that NGS Non-Choice monthly imbalances may affect PGC customers in ways that are difficult to calculate precisely. (UGI Gas St. No. 12-R, p. 18). This is for two reasons. First, to accommodate a monthly imbalance, PGC pipeline or storage capacity may be used to deliver additional gas supplies to the Company's system to accommodate a shortfall, or PGC pipeline or storage assets may need to be used to accommodate and store monthly over-deliveries. Second, PGC commodity costs may be impacted. These cost impacts may occur at any level of monthly imbalance. (UGI Gas St. No. 12-R, p. 18).

As a result of negotiations, the Joint Petitioners have agreed on a proposal that strikes a balance between the positions advanced in this case. The Joint Petitioners have agreed that UGI Gas will adjust its Non-Choice excess imbalance policies in two ways. (Settlement ¶ 57). First, the Company will change its cash-out pricing methodology effective on and after November 1, 2020, to adopt the Company's proposed delivery region-based cash-out pricing methodology. Prior to November 1, 2020, the Company will maintain its existing methodology. (Settlement ¶ 57).

Second, effective November 1, 2020, the compliance tariff specifies a cash-out methodology that cashes out, for both long and short positions, only the increment that is greater than 5% (rather than cash out the entire balance) once the 10% threshold is exceeded, but shall otherwise be as proposed by Company. (Settlement ¶ 57). Prior to November 1, 2020, the Company's cash-out rules will apply unchanged.

The Settlement provides the Company with a transition period, which will provide time to take necessary preparations in order to implement the new policy in a way that does not negatively impact customers or the availability of supply. Making these modifications will align

UGI Gas's cash-out policies with other NGDCs. (NGS/RESA St. No. 1, pp. 9-13). These changes provide an appropriate incentive to Non-Choice transportation customers and NGSs to design their supply portfolio and operations to stay within the permitted free monthly imbalance tolerances, while also providing reimbursement to the PGC for potential cost impacts that may occur as a result of accommodating monthly imbalances.

h. Daily Metering Expansion

Currently, not all of the Non-Choice transportation customers in the South Rate District have daily metering of gas usage, while every Non-Choice transportation customer in the North and Central Rate Districts do have daily metering. (UGI Gas St. No. 9, p. 28). As part of its direct case, UGI Gas proposed a schedule for the installation of daily metering facilities for all Non-Choice transportation customers and to thereafter transfer all Non-Choice transportation customer accounts to calendar month billing and balancing pools. (UGI Gas St. No. 9, pp. 28-29). No party opposed the Company's proposal, although OCA did propose certain adjustments to the accounting treatment of the program. (OCA St. 1, pp. 21-22).

The Joint Petitioners have agreed that the Company's proposal is accepted, as discussed in the Direct Testimony of Shaun Hart, UGI Statement No. 9. The Company has agreed to exercise best efforts to transfer the remaining Non-Choice transportation accounts to calendar month billing and balancing pools by no later than November 1, 2020. (Settlement ¶ 59). Installing daily metering facilities for these customers would allow them to be pooled with other transportation customers who are billed on a calendar month cycle. The use of billing pools enables NGSs to nominate gas supplies and to balance gas deliveries with consumption on a pool-wide, rather than an individual customer account, basis. The expansion of daily metering would facilitate customer Choice by making it easier for NGSs to manage all customer pools on a calendar month basis on UGI Gas's system. (UGI Gas St. No. 9, pp. 29-30).

i. Merger of Southeast and Southwest Regions

As a result of the merger, the Company reviewed the reliability requirements of a unified UGI Gas system to develop delivery regions. (UGI Gas St. No. 12, p. 8). The regions and delivery requirements proposed at the collaborative are shown in UGI Gas Exhibit AMB-5. In developing these, the Company was mindful of the fact that reducing the number of customer regions NGSs are required to manage could be beneficial to NGSs. (UGI Gas St. No. 12, pp. 8-9). As a result, UGI Gas proposed to reduce the number of regions having differing delivery requirements from twelve to four, reflecting gas delivery capabilities without regard to existing rate district boundaries, and proposed delivery rules for each of these four regions. (UGI Gas St. No. 12, p. 9).

The Joint Petitioners have agreed to the merger of the Southeast and Southwest delivery regions. (Settlement ¶ 60). Merging these two regions will further simplify and streamline the nomination process for NGSs. The updated pipeline delivery split requirements are stated in Paragraph 60.

j. Other Transportation Issues

As part of a comprehensive settlement package, there were a number of items agreed to by the Joint Petitioners to improve the UGI Gas transportation program.

The Joint Petitioners have agreed to take steps to make the supply nomination process less burdensome on participating NGSs. Specifically, this includes adjusting the deadline for certain nominations, and transitioning to a common DUNS number for customer and delivery nominations. (Settlement ¶ 58). These two items were identified by NGS/RESA as constraints that produce unnecessary burdens on suppliers without any benefit to customers. (NGS/RESA St. No. 1, pp. 13-14). They can be addressed by the Company without any negative impact on customers. (UGI Gas St. No. 12-R, pp. 19-22). The Company will institute a common DUNS

number for the purpose of making customer and delivery nominations under the Choice transportation program effective November 1, 2019, and will institute a common DUNS number for the purpose of making customer and delivery nominations under the consolidated Non-Choice transportation program effective November 1, 2020.

The Joint Petitioners have agreed to modify the UGI Gas Eligible Customer List to provide associated customer delivery region designations. UGI Gas will continue to provide certain information concerning Choice customers in accordance with the Commission's customer information disclosure regulations at 52 Pa. Code §62.78. For Non-Choice customers, the Company will post a listing of account numbers and their respective delivery region designations on its website. (Settlement ¶ 61). By providing this information, Non-Choice NGSs may readily determine the delivery regions of their current or prospective customers (if the customer provides their customer account number information). The posting will be made on a password protected website accessible only by authorized Company personnel and licensed NGSs qualified to do business on the UGI Gas system. (Settlement ¶ 61).

The Joint Petitioners have agreed that UGI Gas shall release to suppliers a full list of producers directly connected to the UGI Gas system, also by posting on a password protected website accessible only by authorized Company personnel and licensed NGSs. (Settlement ¶ 62). This information may assist marketers in identifying additional sources of supply located in proximity to the UGI Gas distribution system.

Finally, the Joint Petitioners have agreed that the Company commits to analyze the capability to provide a virtual storage proposal ("VSP") to NGSs who provide "Choice" natural gas supply service on the UGI Gas distribution system that will allow suppliers to manage injections and withdrawals of supply through nominations made to the Company. (Settlement ¶

63). Licensed NGSs have expressed an interest in a virtual storage proposal since they believe that it could provide for lower overall gas costs for their customers if they were allowed more flexibility in determining injection and withdrawal volumes during the summer and winter seasons. To the extent that such a proposal would be feasible, it may fuel additional competition and lower gas costs, both of which are good for customers. However, there are many complexities and potential costs associated with such a program, which need to be fully analyzed. The Settlement provides a process and approach for this analysis, which is intended to make sure that the results of the analysis provide necessary insight on this issue for all parties.

G. SAFETY

I&E raised concerns in its testimony addressing safety issues and the cost of restoration. (*See generally* I&E St. Nos. 5 and 6). Specifically, Ms. Bozhko testified that the Company should continue to track data by rate district, and conduct separate risk analyses by rate district. (I&E St. No. 5, p. 12). However, in addition to these separate analyses, Ms. Bozhko testified that UGI Gas should have a combined system-wide calculated risk in one master Distribution Integrity Management Program (“DIMP”) record. (I&E St. No. 5, p. 12). Mr. Harchar testified that UGI Gas has experienced increasing restoration costs in conjunction with its accelerated infrastructure repair and replacement program, and that the Company should seek to reduce these costs. (I&E St. No. 6, pp. 7-11, 16-17). In its rebuttal testimony, the Company explained that it already conducts separate risk analyses for the rate districts. (UGI Gas St. No. 2-R, pp. 2-7). The Company also described the many ways in which it seeks to reduce restoration costs. (UGI Gas St. No. 2-R, pp. 7-9).

In the Settlement, the Company has agreed to continue conducting separate risk analyses for each of the three rate districts and will continue to maintain a combined system-wide calculated risk for all assets across company territories in one master DIMP record which will be

utilized for LTIP prioritization purposes. (Settlement ¶ 70). Through this process, UGI Gas will be able to continue to assess and address the condition of its distribution system, and particularly the need to replace aging mains.

In addition, UGI Gas has agreed to continue taking affirmative steps to reduce restoration costs, through efforts including, but not limited to, coordinating pipe replacement projects with other street projects, and replacing pipe using trenchless construction techniques where technically and economically feasible. (Settlement ¶ 71). The Company explained that it has applied many approaches to combat the rising cost of restoration. (UGI Gas St. No. 2-R, pp. 7-9). The Company will continue to take affirmative steps to reduce its restoration costs, which produces a direct benefit to ratepayers.

Finally, the Settlement provides for a one-time stakeholder meeting between UGI Gas and the Commission's Safety Division, and any other interested parties to this proceeding. (Settlement ¶ 72). This meeting is for the purpose of eliciting input into potential strategies designed to reduce construction and restoration costs associated with pipeline replacement projects. As restoration costs are a significant cost component of infrastructure replacement, any workable ideas will produce benefits to the public.

H. OTHER ISSUES

In I&E's direct testimony, Mr. Kubas stated that I&E was not able to fully assess Interruptible Service ("IS") rate customers, because the Company did not have sufficient data on competitive alternatives. (I&E St. No. 3, pp. 16-18). Mr. Kubas specifically proposed that the Company conduct a periodic review of the rate IS customers and their competitive alternatives. (I&E St. No. 3, pp. 17-18). The Company provided testimony indicating that it already collects information from its IS customers, although it does so when the customer's rate agreement is expiring. (UGI Gas St. No. 9-R, pp. 32-34).

Paragraph 73 of the Settlement provides an analysis, starting with the Company's next base rate proceeding, so that the parties will have more comprehensive information regarding the competitive alternatives for UGI Gas's IS customers. UGI Gas agrees to maintain a competitive alternative analysis for each interruptible customer with alternate fuel capability every five (5) years. The competitive alternative analysis will include twelve (12) months of historical usage, the date the analysis was completed, and a reasonable proxy cost on an equivalent BTU basis the customer would incur to utilize the alternative fuel based on published index prices for the alternative fuel. The analysis will compare the IS rates each customer pays with the cost that customer would incur to utilize the alternative fuel. The competitive analysis for each customer will include a listing of actual interruptions with dates and duration in the past five years. (Settlement ¶ 73). This analysis provides a reasonable approach to satisfy Mr. Kubas' concern about the quality of information regarding the Company's interruptible customers.

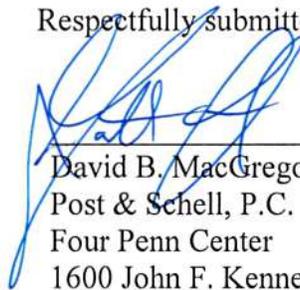
IV. CONCLUSION

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

- (i) Approve the Joint Petition for Approval of Settlement of All Issues without modification;

- (ii) Approve the proposals set forth in UGI Gas's above-captioned January 28, 2019 distribution base rate increase filing subject to the terms and conditions of the Joint Petition for Approval of Settlement of All Issues;
- (iii) Approve the *pro forma* tariff attached to the Joint Petition for Approval of Settlement of All Issues as Appendix A;
- (iv) Approve the proof of revenues attached to the Joint Petition for Approval of Settlement of All Issues as Appendix B;
- (v) Mark the Formal Complaints filed by OCA, OSBA, and the customer complainants as satisfied and closed; and
- (vi) Mark the investigation at Docket R-2018-3006814 closed.

Respectfully submitted,



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Date: July 22, 2019

Counsel for UGI Utilities, Inc. – Gas Division

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

Residential Heating

For Former UGI South Rate District customers:

Under the Settlement Rates, the bill for a typical Residential Heating customer that uses 64.0 Ccf per month will increase by \$8.31 per month, from \$63.81 to \$72.11 (or 13.0%), including purchased gas costs and other surcharges. In comparison, in the Company's proposed filing, the bill for a typical Residential Heating customer would have increased by \$10.48 per month from \$62.45 to \$72.93 (or 16.8%), including purchased gas costs and other surcharges.

For Former UGI North Rate District customers:

Under the Settlement Rates, the bill for a typical Residential Heating customer that uses 92.3 Ccf per month will increase by \$0.08 per month, from \$91.13 to \$91.22 (or 0.1%), including purchased gas costs and other surcharges. In comparison, in the Company's proposed filing, the bill for a typical Residential Heating customer would have increased by \$7.65 per month from \$89.72 to \$97.37 (or 8.5%), including purchased gas costs and other surcharges.

For Former UGI Central Rate District customers:

Under the Settlement Rates, the bill for a typical Residential Heating customer that uses 79.0 Ccf per month will decrease by \$15.69 per month, from \$95.39 to \$79.70 (or -16.5%), including purchased gas costs and other surcharges. In comparison, in the Company's proposed filing, the bill for a typical Residential Heating customer would have decreased by \$7.77 per month from \$93.68 to \$85.91 (or -8.3%), including purchased gas costs and other surcharges.

Commercial Heating

For Former UGI South Rate District Customers

Under the Settlement Rates, the bill for a typical Commercial Heating customer that uses 27.1 Mcf per month will increase by \$3.77 per month, from \$246.63 to \$250.40 (or 1.5%), including purchased gas costs and other surcharges. In comparison, in the Company's proposed filing, the bill for a typical Commercial Heating customer would have increased by \$3.61 per month from \$246.63 to \$250.24 (or 1.5%), including purchased gas costs and other surcharges.

For Former UGI North Rate District Customers

Under the Settlement Rates, the bill for a typical Commercial Heating customer that uses 31.2 Mcf per month will increase by \$11.97 per month, from \$241.11 to \$253.08 (or 5.0%), including purchased gas costs and other surcharges. In comparison, in the Company's proposed filing, the bill for a typical Commercial Heating customer would have increased by \$41.89 per month from \$241.11 to \$283.01 (or 17.4%), including purchased gas costs and other surcharges.

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

For Former UGI Central Rate District Customers

Under the Settlement Rates, the bill for a typical Commercial Heating customer that uses 28.2 Mcf per month will increase by \$3.66 per month, from \$235.90 to \$239.56 (or 1.6%), including purchased gas costs and other surcharges. In comparison, in the Company's proposed filing, the bill for a typical Commercial Heating customer would have increased by \$23.59 per month from \$235.90 to \$259.50 (or 10.0%), including purchased gas costs and other surcharges.

Industrial

For Former UGI South Rate District Customers

Under the Settlement Rates, the bill for a typical Industrial customer that uses 58.5 Mcf per month will decrease by \$0.79 per month, from \$514.50 to \$513.71 (or -0.2%), including purchased gas costs and other surcharges. In comparison, in the Company's proposed filing, the bill for a typical Industrial customer would have decreased by \$16.81 per month from \$514.50 to \$497.69 (or -3.3%), including purchased gas costs and other surcharges.

For Former UGI North Rate District Customers

Under the Settlement Rates, the bill for a typical Industrial customer that uses 88.1 Mcf per month will increase by \$51.59 per month, from \$619.90 to \$671.50 (or 8.3%), including purchased gas costs and other surcharges. In comparison, in the Company's proposed filing, the bill for a typical Industrial customer would have increased by \$111.44 per month from \$619.90 to \$731.35 (or 18.0%), including purchased gas costs and other surcharges.

For Former UGI Central Rate District Customers

Under the Settlement Rates, the bill for a typical Industrial customer that uses 214.7 Mcf per month will increase by \$74.95 per month, from \$1,591.52 to \$1,666.47 (or 4.7%), including purchased gas costs and other surcharges. In comparison, in the Company's proposed filing, the bill for a typical Industrial customer would have increased by \$137.38 per month from \$1,591.52 to \$1,728.90 (or 8.6%), including purchased gas costs and other surcharges.

APPENDIX “B”

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	R-2018-3006814
Office of Consumer Advocate	:	C-2019-3007753
Office of Small Business Advocate	:	C-2019-3007756
	:	
v.	:	
	:	
UGI Utilities, Inc. – Gas Division	:	

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

**TO: DEPUTY CHIEF ADMINISTRATIVE LAW JUDGE
CHRISTOPHER P. PELL:**

I. INTRODUCTION

The Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), by and through its Prosecutor Scott B. Granger, hereby respectfully submits that the terms and conditions of the foregoing Joint Petition for Approval of Settlement of All Issues (“Joint Petition” or “Settlement”) are in the public interest and represent a fair, just, and reasonable balance of the interests of UGI Utilities, Inc. – Gas Division (“UGI Gas” or “UGI” or the “Company”), I&E, the Office of Consumer Advocate (“OCA”), the Office of Small Business Advocate (“OSBA”), the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (“CAUSE-PA”), the Commission for Economic Opportunity (“CEO”), Natural Gas

Supplier Parties (“NGS”) and the Retail Energy Supply Association (“RESA”) (collectively, “NGS/RESA”), UGI Energy Services, Inc. (“UGIES”), and Direct Energy Business, LLC, Direct Energy Services, LLC and Direct Energy Business Marketing, LLC (collectively “Direct Energy”) (parties in the above-captioned proceeding and hereinafter collectively referred to as the “Parties” or ‘Joint Petitioners”), and the UGI Gas customers.

II. BACKGROUND

1. I&E is charged with representing the public interest in Commission proceedings related to rates, rate-related services, and applications affecting the public interest. In negotiated settlements, it is incumbent upon I&E to identify how amicable resolution of any such proceeding may benefit the public interest and to ensure that the public interest is served. Based upon I&E’s analysis of the UGI Gas base rate filing, acceptance of this proposed Settlement is in the public interest and I&E recommends that the Administrative Law Judge and the Commission approve the Settlement in its entirety.

2. On January 28, 2019, UGI Gas filed its proposed Tariff Gas - Pa. P.U.C. Nos. 7 and 7S, with a proposed effective date of March 29, 2019. The rates set forth in Tariff Nos. 7 and 7S, if approved by the Commission, would have increased UGI Gas’s annual jurisdictional revenues by \$71.1 million. The Company also proposed to create uniform rates by rate class, including base rates, purchased gas cost (“PGC”) charges, and other rider charges, for the UGI Gas South, North and Central Rate Districts, and would have established uniform choice and non-choice transportation programs applicable to all customers and natural gas suppliers. Tariff Nos. 7 and 7S also proposed changes to a

variety of general tariff rules and regulations as well as certain provisions of gas transportation and Gas Choice services.

3. In addition to the proposed changes to the distribution rates and the purchased gas cost rates, the Company proposed to extend the existing temporary federal tax credit for a 12-month period following the effective date of new rates. As proposed, this credit would reduce the distribution rate portion of customer bills from those proposed in the filing by 4.50% over the course of the 12-month period. The principal reasons proffered for UGI Gas's request for rate relief were: (1) to establish rates which provide the Company a reasonable opportunity to earn a fair return on its investment used to serve the public; (2) to establish uniform rates, rules and regulations for UGI's three current rate districts, which will reduce costs, improve administrative efficiency and promote retail competition; (3) to support a continuation of accelerated capital investment in key technology system replacements and to maintain and improve system safety and reliability by replacing aging infrastructure; (4) to update certain terms and conditions of service and address program commitments established in other Commission proceedings; (5) to report on the Company's Growth Extension Tariff ("GET") Gas pilot main extension program and extend the pilot for another five years; and (6) to incorporate new investments related to distribution infrastructure for growth and replacement of essential facilities.

4. I&E filed its Notice of Appearance regarding this proceeding on January 31, 2019.

5. The OCA filed a Public Statement and Notice of Appearance in this proceeding on February 7, 2019.
6. The OSBA filed its Notice of Appearance and Public Statement also on February 7, 2019.
7. On February 14, 2019, CAUSE PA and CEO each separately filed Petitions to Intervene in this proceeding.
8. On February 21, 2019, the NGS parties and RESA filed a Petition to Intervene in this proceeding.
9. On February 28, 2019, Direct Energy filed a Petition to Intervene in this proceeding.
10. Additionally, several ratepayers filed formal complaints.
11. On February 28, 2019, the Commission entered an Order that suspended the implementation of proposed Tariffs 7 and 7S by operation of law until October 29, 2019, and opened an investigation into the lawfulness, justness, and reasonableness of the proposed rates, rules, and regulations contained in proposed Tariffs 7 and 7S.
12. A dual-location telephonic Prehearing Conference was held on March 13, 2019, at 1:30 pm before Deputy Chief Administrative Law Judge Christopher S. Pell (“ALJ Pell”) presiding in Philadelphia, during which the parties agreed to a schedule for the conduct of the case including the service of testimony among the parties and the dates for evidentiary hearings.

13. All parties undertook comprehensive discovery in this proceeding after the filing was made and continued to conduct discovery throughout the litigation and settlement negotiation process.

14. In accordance with the procedural schedule established at the prehearing conference, I&E served to all active parties the following eleven (11) pieces of testimony and accompanying nine (9) exhibits from six (6) I&E witnesses:

- I&E Statement No. 1 and I&E Exhibit No. 1 (PROPRIETARY) (NON-PROPRIETARY) – the Direct Testimony of I&E witness D.C. Patel;
- I&E Statement No. 1-SR (PROPRIETARY)(NON-PROPRIETARY) and I&E Exhibit No. 1-SR – the Surrebuttal Testimony of I&E witness D.C. Patel;
- I&E Statement No. 2 and I&E Exhibit No. 2 – the Direct Testimony of I&E witness Anthony Spadaccio;
- I&E Statement No. 2-SR – the Surrebuttal Testimony of I&E witness Anthony Spadaccio;
- I&E Statement No. 3 and I&E Exhibit No. 3 – the Direct Testimony of I&E witness Joseph Kubas;
- I&E Statement No. 3-Errata to the Direct Testimony of I&E witness Joseph Kubas;
- I&E Statement No. 3-SR I&E Exhibit No. 3-SR – the Surrebuttal Testimony of I&E witness Joseph Kubas;
- I&E Statement No. 4 and I&E Exhibit No. 4 – the Direct Testimony of I&E witness Christopher Henkel;
- I&E Statement No. 4-SR and I&E Exhibit No. 4-SR – the Surrebuttal Testimony of I&E witness Christopher Henkel;
- I&E Statement No. 5 and I&E Exhibit No. 5 (PROPRIETARY)(NON-PROPRIETARY) – the Direct Testimony of I&E witness Elena Bozhko;
- I&E Statement No. 6 and I&E Exhibit No. 6 (PROPRIETARY)(NON-PROPRIETARY) – the Direct Testimony of I&E witness James Harchar;
- I&E Statement No. 6-SR – the Surrebuttal Testimony of I&E witness James Harchar.

15. In accordance with Commission policy encouraging settlements at 52 Pa. Code § 5.231 and § 69.401 as they often achieve results preferable to a fully litigated proceeding, I&E participated in multiple settlement discussions with UGI Gas and the

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

III. SETTLEMENT

16. I&E is charged with representing the public interest in Commission proceedings related to rates, rate-related services, and applications affecting the public interest. In negotiated settlements, it is incumbent upon I&E to identify how amicable resolution of any such proceeding may benefit the public interest and to ensure that the public interest is served.

17. “The prime determinant in the consideration of a proposed Settlement is whether the settlement is in the public interest.”¹ The Commission has recognized that a settlement “reflects a compromise of the positions held by the parties of interest, which, arguably fosters and promotes the public interest.”²

18. Settlements conserve precious administrative resources and provide regulatory certainty with respect to the disposition of issues with results that are often preferable to those achieved at the conclusion of a fully-litigated proceeding; and, provide a final resolution of adversarial proceedings which, in the Commission’s judgement, is preferable.³ The very nature of a settlement requires a review and discussion of all issues raised by the parties’ and a negotiated compromise on the part of all parties.

¹ *Pennsylvania Public Utility Commission v. Philadelphia Electric Company*, 60 PA PUC 1, 22 (1985).

² *Pennsylvania Public Utility Commission v. C S Water and Sewer Associates*, 74 PA PUC 767, 771 (1991).

³ *See generally* 52 Pa. Code § 5.231 and § 69.401.

19. I&E submits that this Settlement balances the interests of the Company, its customers, the Joint Petitioners, and the parties in a fair and equitable manner and presents a resolution for the Commission's adoption that best serves the public interest. Furthermore, the negotiated Settlement demonstrates that compromises are evident throughout the Joint Petition. Accordingly, for the specific reasons articulated below to achieve the full scope of benefits addressed in the Settlement; I&E requests that the Settlement be recommended by ALJ Pell, and approved by the Commission, without modification.

A. GENERAL (Joint Petition ¶¶ 15-16):

The Joint Petitioners agree that the terms of this Settlement reflect a carefully balanced compromise of the interests of all the active Parties in this proceeding. The Joint Petitioners agree that UGI Gas's January 28, 2019 distribution base rate increase filing should be approved, including those tariff changes included in and specifically identified in Appendix A attached to the Joint Petition, subject to the terms and conditions of the Settlement set forth in the Joint Petition.

B. REVENUE REQUIREMENT (Joint Petition ¶¶ 17-21):

In the Settlement, the Joint Petitioners agreed to settlement terms regarding revenue requirement including the overall annual distribution revenue increase; test year plant reporting obligations; DSIC-eligible plant balance; DSIC calculation return on equity; and the inclusion of energy efficiency and conservation annual expenditures. Specifically, the settlement terms regarding these issues are as follows:

1. Annual distribution revenue increase. UGI Gas will be permitted to submit a revised tariff supplement designed to produce an annual distribution revenue increase of \$30.00 million, to become effective on or before October 29, 2019 for service rendered thereafter. The increase in annual distribution rate revenue is in lieu of the as-filed increase of approximately \$71.1 million. The settlement as to revenue requirement shall be a “black box” settlement, except for the items specifically set forth in the Joint Petition.

I&E engaged in extensive discovery and submitted extensive testimony regarding the proposed overall annual distribution revenue increase that was proposed in UGI Gas’ base rate filing. In its direct testimony, I&E discussed several significant adjustments regarding UGI’s base rate filing that had the potential to have significant impacts to the proposed overall annual distribution revenue increase. The I&E adjustments that were discussed included, but were not limited to, adjustments to UGI’s Future Test Year (“FTY”) and Fully Projected Future Test Year (“FPFTY”) projected plant additions;⁴ present rate revenues;⁵ projected number of rate class R/RT heating and rate class N/NT customers;⁶ projected rate class R/RT heating customer usage decline;⁷ interruptible revenues;⁸ overall rate of return and cost of common equity;⁹ and various operation and

⁴ I&E St. No. 3, pp. 4-11; I&E Exh. No. 3, Schs 1-4 and 5; I&E St. No. 3-SR, pp. 3-10; I&E Exh. 3-SR, Schs 3-4.

⁵ I&E St. No. 3, pp. 20-66; I&E Exh. No. 3, Schs 4, 13, 20-38, 43; I&E St. No. 3-SR, pp. 22-62; I&E Exh. No. 3-SR, Sch. 1.

⁶ I&E St. No. 3, pp. 37-52; I&E Exh. No. 3, Schs. 29-38; I&E St. No. 3-SR, pp. 40-47.

⁷ I&E St. No. 3, pp. 21-37; I&E Exh. No. 3, Schs. 20-28, 43; I&E St. No. 3-SR, pp. 23-40; I&E Exh. No. 3-SR, Sch. 1.

⁸ I&E St. No. 3, pp. 15-19, 53-64; I&E Exh. No. 3, Schs. 4, 6-13, 43; I&E St. No. 3-SR, pp. 14-21, 47-61.

⁹ I&E St. No. 2, pp. 2-52; I&E Exh. No. 2, Schs. 1-10; I&E St. No. 2-SR, pp. 1-32.

maintenance expenses.¹⁰ Some of these adjustments were later modified or withdrawn in I&E surrebuttal testimony.

I&E fully supports the negotiated level of overall distribution rate revenue increase as compared to UGI's original proposal. While the overall revenue requirement is a "black box" compromise, the overall revenue levels are within the levels advanced on the evidentiary record and reflect a full compromise of all revenue-related issues raised by the parties. And, as a "black box" settlement, unless specifically addressed below, the Settlement does not reflect agreement upon individual issues. Therefore, in consideration of the extensive testimony presented by all of the parties to this proceeding, I&E fully supports the negotiated level of overall distribution rate revenue increase as a full and fair compromise that provides UGI Gas, the Joint Petitioners, affected ratepayers, and the Commission with resolution of these issues, all of which is in the public interest.

2. Test year plant reporting obligation. An update to UGI Gas's Revised Exhibit A, Schedule C-2 shall be submitted to I&E, OCA, and OSBA no later than January 2, 2020, which update should include actual capital expenditures, plant additions, and retirements by month from October 1, 2018 through September 30, 2019, and an additional update to Schedule C-2 for actual expenditures by month from October 1, 2019 through September 30, 2020 shall be filed no later than January 2, 2021.

I&E submitted extensive testimony regarding test year plant-in-service.¹¹ Specifically, I&E recommended that the Company provide the Commission's Bureaus of

¹⁰ I&E St. No. 1, pp. 3-54; I&E Exh. No. 1, Schs. 1-12; I&E St. No. 1-SR, pp. 3-57; I&E Exh. No. 1-SR, Sch. 1.

¹¹ I&E St. No. 3, pp. 3-15; I&E St. No. 3-SR, pp. 2-14.

Technical Utility Services and Investigation and Enforcement with an update to UGI Book 5 – Sch. C-2, no later than January 2, 2020, which shall include actual capital expenditures, plant additions, and retirements by month from October 1, 2018 through September 30, 2019.¹² I&E noted that it believes that the updates will provide valuable checks and balances to help determine how accurately UGI projects investments in future facilities compared to the monthly actual investments and retirements that are made by the end of the FTY and the FPFTY.¹³

In consideration of all of the testimony presented and the various positions presented by the Joint Petitioners, I&E supports this settled upon term regarding the test year plant reporting obligation as stated in the Joint Petition as a full and fair compromise that provides the UGI, the Joint Petitioners, affected ratepayers, and the Commission with resolution of the test year plant reporting issue, all of which is in the public interest.

3. Distribution System Improvement Charge (“DSIC”) eligible plant balances. As of the effective date of rates in this proceeding, UGI Gas will be eligible to include plant additions in the DSIC once the total net plant balances reach the levels projected to be in service in Revised UGI Gas Exhibit A as of September 30, 2020 (\$2,875,056,000). The foregoing provision is included solely for purposes of calculating the DSIC and is not determinative for future ratemaking purposes of the projected additions to be included in rate base in an FPFTY filing.

¹² I&E St. No. 3, p. 14; I&E St. No. 3-SR, p. 13.

¹³ I&E St. No. 1-SR, p. 13.

I&E submitted testimony regarding the FTY and FPFTY plant projections¹⁴ which includes, generally, by reference, the relationship between the total net plant balances and DSIC eligible plant additions. Further, I&E recognizes that 66 Pa. C.S. § 1351 *et seq.* provides the pertinent Commission regulations regarding the DSIC and the rate base treatment of DSIC eligible plant additions. Therefore, I&E does not oppose this settlement term as a full and fair compromise that provides UGI, the Joint Petitioners and the Commission with regulatory certainty and resolution of this DSIC eligible plant issue, which is in the public interest.

4. DSIC calculation return on equity. For purposes of calculating its DSIC, UGI shall use the equity return rate for gas utilities contained in the Commission's most recent Quarterly Report on the Earnings of Jurisdictional Utilities and shall update the equity return rate 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).

I&E did not submit testimony regarding the DSIC calculation return on equity.

I&E recognizes that 66 Pa. C.S. § 1357(b)(3) provides in pertinent part:

If more than two years have elapsed between the entry of a final order and the effective date of the distribution system improvement charge, the equity return rate used in the calculation shall be the equity return rate calculated by the commission in the most recent Quarterly Report on the Earnings of Jurisdictional Utilities released by the commission.

¹⁴ I&E St. No. 3, pp. 7-15; I&E St. No. 3-SR, pp. 3-14.

Therefore, I&E does not oppose this settled upon term, as stated in the Joint Petition, as a full and fair compromise that provides UGI, the Joint Petitioners and the Commission with regulatory certainty and resolution of this issue, which is in the public interest.

5. Energy Efficiency and Conservation (“EE&C”) annual expenditures. The overall revenue requirement assumes that the Company’s proposed EE&C Plan test year modifications, including the expansion of the program into the UGI Central rate district, are approved as part of this proceeding subject to the modifications discussed in the Joint Petition. The overall revenue requirement includes annual EE&C expenditures.

I&E did not submit testimony regarding this specific issue. Nevertheless, I&E shares the concerns of the interested Joint Petitioners. Further, I&E did not play an active role in the settlement negotiations regarding this issue, but did, however, monitor the proposals and counter proposals offered by the parties throughout this proceeding. Therefore, I&E does not oppose this settled upon term as a full and fair compromise that provides regulatory certainty and a resolution of this issue, all of which facilitates the Commission’s stated preference favoring negotiated settlements as in the public interest.

C. REVENUE ALLOCATION/RATE DESIGN (Joint Petition ¶¶ 22-31):

In the Settlement, the Joint Petitioners agreed to settlement terms regarding the revenue allocation/rate design including the billing determinants; rate class revenue allocation; uniform distribution rates and riders; monthly customer charges; interruptible revenues; the GET Gas pilot program; Universal Service Program (“USP”) Rider; Tax

Cuts and Jobs Act (“TCJA”) flow back; Purchased Gas Costs (“PGC”) revenue adjustments over collection issue; and ACH/credit card fee waiver. Specifically, the settlement terms regarding these issues are as follows:

1. Billing determinants. Use per customer and number of customer billing determinants utilized in the proof of revenue (UGI Gas Exhibit E) will be those set forth in the Company’s initial filing, except that the sales for Rate R/RT shall be increased by 1,128,518 Mcf (2 Mcf per year per Rate R/RT heating customer).

I&E submitted extensive testimony regarding billing determinants that is discussed below as part of the comprehensive discussion of paragraphs 1 - 4 following paragraph 4, Monthly Customer Charges.

2. Revenue Allocation. Class revenue allocation will be based on the following table:

Class	Revenue Allocation (\$ million)	
Rate R/RT	\$	23.02
Rate N/NT	\$	4.85
Rate DS	\$	0.49
Rate LFD	\$	0.79
Rate XD	\$	0.95
Rate IS	\$	(0.10)
Total	\$	30.00

I&E submitted extensive testimony regarding class revenue allocation that is discussed below as part of the comprehensive discussion of paragraphs 1 - 4 following paragraph 4, Monthly Customer Charges.

3. Uniform Distribution Rates and Riders. The Company’s proposal to move all rate classes to uniform distribution and purchased gas cost rates on

the effective date of new rates established in this proceeding is accepted, provided, however, that for Rate N/NT and Rate DS, uniform distribution rates will be achieved in two steps (Step 1 beginning with the effective date of new rates and Step 2 effective with new rates established in the Company's next general rate proceeding under 66 Pa. C.S. § 1308(d)). For Step 1, the Rate N/NT North rate district rates will be increased by twelve (12) percent and Rate DS North rate district rates will be increased by twenty (20) percent, with Rate N/NT and Rate DS South and Central rate districts being set uniformly by class to recover the remaining N/NT and DS revenue requirements, respectively. For Step 2, the parties reserve their rights to oppose the Company's proposed rates and propose alternative rates. Purchase Gas Cost rate consolidation will occur with the effective date of the new PGC year, December 1, 2019.

I&E submitted extensive testimony regarding uniform distribution rates and riders which are discussed below as part of the comprehensive discussion of paragraphs 1 - 4 following paragraph 4, Monthly Customer Charges.

4. Monthly Customer Charges. The customer charges shall be those proposed by the Company except for those as set forth in the Joint Petition and restated in the table below.

Rate Class	Customer Charge	Proposed Customer Charge
R/RT	\$14.60	\$19.00
N/NT	\$23.50	\$37.00
DS	\$260.00	\$280.00

LFD	\$670.00	\$670.00
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I&E submitted extensive testimony regarding revenue allocation/rate design including the billing determinants; rate class revenue allocation; uniform distribution rates and riders; and monthly customer charges.¹⁵ I&E expressed concerns regarding the Company's desire to move all rate classes to uniform distribution and PGC rates. I&E was concerned because the Company's initial proposal increases the R/RT customer charge across all three rate districts at the same time it decreases the R/RT usage rates for two of the rate districts.¹⁶ Additionally, the PGC rate in one of the rate districts was proposed to decrease.¹⁷ The end result would have been that the total bill for average R/RT customers would increase for some customers and decrease for other customers.¹⁸

Because I&E believed these results would be unreasonable, I&E recommended that while it might be possible to consolidate the residential customer charges in one proceeding, the usage rates should be consolidated incrementally over more than one base rate case.¹⁹ Further, I&E expressed concerns that UGI's proposed rate design and revenue allocation would violate the ratemaking concept of gradualism because the proposed rate reductions for some rates would have caused greater and unreasonable increases for other rates.²⁰

Therefore, in consideration of all of the testimony presented and the various positions presented by the Joint Petitioners, I&E supports the revenue allocation and rate

¹⁵ I&E St. No. 3, pp. 64-82; I&E Exh. No. 3, Schs. 4, 15-19; I&E St. No. 3-SR, pp. 63-80; I&E Exh. No. 3-SR, Schs. 2-3.

¹⁶ I&E St. No. 3, pp. 66-76; I&E St. No. 3-SR, pp. 63-80.

¹⁷ I&E St. No. 3, pp. 68-71.

¹⁸ I&E St. No. 3, pp. 69-71.

¹⁹ I&E St. No. 3, pp. 70-76.

²⁰ I&E St. No. 3-SR, p. 71.

design settlement terms as stated in the Joint Petition as a full and fair compromise that provides UGI, the Joint Petitioners, affected ratepayers, and the Commission with regulatory certainty and resolution of the revenue allocation/rate design issue, all of which is in the public interest.

5. Interruptible Revenue. Proof of Revenue will include a total of \$24.602 million of interruptible revenue (versus \$14.9 million, as filed). The Company's proposed Extension and Expansion Fund ("EEF") and Interruptible Sharing Mechanism ("ISM") are withdrawn.

I&E submitted extensive testimony regarding the proposed Interruptible Sharing Mechanism and the Extension and Expansion Fund.²¹ I&E recommended that both the ISM and the EEF proposals be denied.²² I&E reasoned that there was no valid reason or need for either the ISM or the EEF; and that establishing an ISM and an EEF that use ratepayer money to potentially add customers or sales is unreasonable.²³ Additionally, I&E argued that the ISM and the EEF should also be rejected because they lack goals or objective metrics to measure their success.²⁴ Furthermore, I&E rejected the proposition that the Company is requesting existing ratepayers fund the Company's desire to expand its customer base and increase revenue.²⁵

Therefore, in consideration of all of the testimony presented and the various positions presented by the Joint Petitioners, I&E supports the withdrawal of the ISM and

²¹ I&E St. No. 3, pp. 53-64; I&E Exh. 3, Schs. 11-13; I&E St. No. 3-SR, pp. 47-61.

²² I&E St. No. 3, pp. 55, 60.

²³ I&E St. No. 3, pp. 55-57, 60-62.

²⁴ I&E St. No. 3, pp. 55, 61.

²⁵ I&E St. No. 3, pp. 55-58, 60-63.

the EEF as a full and fair compromise that provides UGI, the Joint Petitioners, affected ratepayers, and the Commission with regulatory certainty and resolution of the these proposals, all of which is in the public interest.

6. GET Gas. The Company's Growth Extension Tariff pilot program will continue for an additional five years subject to annual reporting requirements. The Company will be permitted to implement GET Gas Surcharges, as reflected below:

- Residential: \$29.00;
- Commercial customer charge: \$20.03; and
- Commercial volumetric charge: \$1.87/Mcf.

However, the GET Gas Rider Rate for customers accepted by the Company before October 29, 2019 at the following rates shall remain unchanged:

- Rate Schedules R and RT: \$21.75 monthly charge
- Rate Schedules N and NT: \$13.08 monthly charge plus \$1.07 per Mcf for all usage.

Effective with the effective date of new rates in this proceeding, the Company may continue to use the GET Gas program to expand into additional underserved and unserved areas of its certificated service territory except in Gas Beyond the Mains territories already determined uneconomic by the Commission. The Company will include in each above-referenced annual report an economic evaluation including cost, saturation and revenue projections for each GET Gas project.

I&E submitted extensive testimony regarding UGI's proposed modifications to its GET Gas program.²⁶ I&E expressed concerns regarding the economic share revenue

²⁶ I&E St. No. 4, pp. 2-20; I&E St. No. 2-22.

shortfall in the, as proposed, GET Gas program.²⁷ I&E noted that the \$26.4 million shortfall of the Company's supported investment represents 53% of the Company's projected supported investment of \$49.6 million for its GET Gas projects and 36% of the projects total cost of \$73.0 million.²⁸ I&E argued that it was not in the public interest to place the burden of this shortfall on the Company's existing ratepayers with no equitable offset in order for UGI to gain from the benefits of expanding natural gas service to new territories which would result in unjust increases to existing ratepayers.²⁹ I&E recommended that until UGI mitigates the problem of cross subsidy, UGI's GET Gas program should be discontinued from moving forward into new territories until the Company can develop an economically viable proposal to move forward with such an expansion.³⁰

In consideration of all of the testimony presented and the various positions presented by the Joint Petitioners, I&E supports these settled upon terms as stated in the Joint Petition as a full and fair compromise that provides UGI, the Joint Petitioners, affected ratepayers, and the Commission with regulatory certainty and with a resolution of the GET Gas program issue, all of which is in the public interest.

7. USP Rider. The Company's proposed Universal Service Program Rider is accepted, provided that the 9.2 percent Customer Assistance Program ("CAP") Credit bad debt offset will be applied where CAP enrollment exceeds 19,672 CAP customers rather than the Company's proposed level of 21,530.

²⁷ I&E St. No. 4, pp. 18-21; I&E St. No. 4-SR, p. 21.

²⁸ I&E St. No. 4-SR, p. 21.

²⁹ *Id.*

³⁰ I&E St. No. 4, p. 20; I&E St. No. 4-SR, p. 21.

I&E did not submit testimony regarding this specific issue. Nevertheless, I&E shares the concerns of the interested Joint Petitioners. Further, I&E did not play an active role in the settlement negotiations regarding this issue, but did, however, monitor the proposals and counter proposals offered by the parties throughout this proceeding. Therefore, I&E does not oppose the settled upon terms as a full and fair compromise that provides regulatory certainty and a resolution of these issues, all of which facilitates the Commission's stated preference favoring negotiated settlements as in the public interest.

8. Tax Cuts and Jobs Act. The Company's proposal to flow-back January through June 2018 Tax Cuts and Jobs Act tax savings to customers, including applicable interest, is accepted.

I&E did not submit testimony regarding this specific issue. Nevertheless, I&E shares the concerns of the interested Joint Petitioners. Further, I&E did not play an active role in the settlement negotiations regarding this issue, but did, however, monitor the proposals and counter proposals offered by the parties throughout this proceeding. Therefore, I&E does not oppose this settled upon term in order to facilitate the Settlement as a full and fair compromise that provides regulatory certainty and a resolution of this issue, all of which facilitates the Commission's stated preference favoring negotiated settlements as in the public interest.

9. PGC Revenue Adjustment. The Company will agree to move the PGC Revenue Overcollection issue to the pending PGC rate proceeding at Docket No. R-2019-3009647. All parties reserve their right to support or oppose the Company's position in the context of that proceeding.

I&E submitted testimony regarding the Company's proposed PGC revenue adjustment accepting the calculation of the net principal overcollection to be refunded but disagreed with the amount of the interest which should be refunded as well.³¹ I&E reasoned that the interest should be applied over the entire time from when the overcollection occurred and should be refunded to customers through the PGC rate adjustment starting with the effective date of new rates.³²

Therefore, in consideration of all of the testimony presented and the various positions presented by the Joint Petitioners, I&E supports the decision to move this issue to the PGC rate proceeding as a full and fair compromise that provides UGI, the Joint Petitioners, affected ratepayers, and the Commission with a resolution of the this issue, all of which is in the public interest.

10. ACH/Credit Card Fee Waiver. The Company's proposal to eliminate credit card fees is accepted.

I&E submitted testimony accepting UGI's proposal to establish a fee-free credit card/ACH payment option, but I&E recommended a reduction to the claimed transaction fees that UGI proposed to recover in rates.³³ Ultimately the amount of the transaction fees was absorbed into the "black box" settlement and therefore, the settlement only reflects that the proposal to eliminate credit card fees is accepted.

Therefore, in consideration of all of the testimony presented and the various positions presented by the Joint Petitioners, I&E supports the settled upon term as a full

³¹ I&E St. No. 1, p. 49.

³² *Id.*

³³ I&E St. No. 1, pp 35-39; I&E St. No. 1-SR, pp. 34-38.

and fair compromise that provides UGI, the Joint Petitioners, affected ratepayers, and the Commission with regulatory certainty and a resolution of the this issue, all of which is in the public interest.

Finally, and overall, I&E fully supports the negotiated revenue allocation and rate design set forth in the Joint Petition as compared to UGI’s original proposal in its initial base rate filing. The final negotiated revenue allocations and rate design are well within the levels advanced on the evidentiary record and reflect a full and fair compromise of all revenue allocation and rate design related issues raised by the parties. I&E believes that the Settlement maintains the proper balance of the interests of all parties. Furthermore, the agreed upon Settlement revenue allocation and rate design effectively moderates the increases initially proposed by the Company and is in the public interest.

**D. ENERGY EFFICIENCY & CONSERVATION PLAN
(Joint Petition ¶¶ 32-36):**

In the Settlement, the Joint Petitioners agreed to settlement terms regarding UGI’s EE&C Plan including the general proposal; evaluation costs; program budgets; recovery of Low-Income Usage Reduction Program (“LIURP”); and the assessment for LIRUP participants. Specifically, the settlement terms regarding these issues are as follows:

1. Generally. The Company’s proposal to extend the current EE&C programs to the Central rate district is approved. The Company’s proposed modifications to the EE&C plan and associated budgets are accepted for the five-year period covering fiscal years 2020 thru 2024.

2. Evaluation Costs. EE&C evaluation costs will be allocated amongst all rate classes for ratemaking recovery as they are incurred.

3. Program Budgets. EE&C program budgets will be restricted so that program funds cannot be moved between residential and nonresidential rate classes. Budget flexibility within a rate class' portfolio should be limited to twenty-five (25) percent of a program's five-year total budget. The parties agree that the Company will petition the Commission for approval of changes of twenty-five (25) percent or more of a five-year total program budget within a rate class.

4. Recovery of LIURP through EE&C. UGI Gas will discontinue recovery of \$100,000 of LIURP funding through its EE&C Rider.

5. Assessment Fee for LIURP Participants. Starting with the effective date of new rates established in this proceeding, customers who contact the UGI LIURP Team and who are determined by the UGI LIURP Team to have income at or below two hundred (200) percent of FPL, but who do not meet LIURP high energy usage thresholds, or who request direct install measures not offered by LIURP but offered by the EE&C Residential Retrofit ("RR") Program, will be referred to the RR Program to receive a fee-waived assessment. The RR assessment fee waiver, including all direct install measures implemented under a fee-waived assessment, will be capped at \$250,000 annually. The \$250,000 is not incremental of the RR Program budget. Direct install measures shall include, but not be limited to; smart thermostats, low flow devices, and water heater tank temperature setback.

I&E did not submit testimony regarding these specific issues. Nevertheless, I&E shares the concerns of the interested Joint Petitioners. Further, I&E did not play an active role in the settlement negotiations regarding these issues, but did, however, monitor the

proposals and counter proposals offered by the parties throughout this proceeding.

Therefore, I&E does not oppose these settled upon terms regarding UGI's EE&C plan as a full and fair compromise that provides regulatory certainty and resolution of these issues, all of which facilitates the Commission's stated preference favoring negotiated settlements as in the public interest.

**E. UNIVERSAL SERVICE AND OTHER LOW-INCOME ISSUES
(Joint Petition ¶¶ 37-49):**

In the Settlement, the Joint Petitioners agreed to settlement terms regarding UGI's Universal Service and Other low-income issues including the use of Community Based Organizations ("CBOs"); the distribution of Universal Service funding; unspent program dollars; annual LIURP funding increase; emergency furnace repair program; Third Party Notification ("TPN") program; forms of income verification for cold weather protections; government identification to establish service; security deposit waiver; release of previously collected security deposits; quarterly CAP rate plan review; budget billing enrolment; and, timing. The specifics of the terms of the Settlement are fully set forth in the Joint Petition at paragraphs thirty-seven (37) through forty-nine (49) and will not be restated here.

I&E did not submit testimony regarding these specific issues. Nevertheless, I&E shares the concerns of the interested Joint Petitioners. Further, I&E did not play an active role in the settlement negotiations regarding these issues, but did, however, monitor the proposals and counter proposals offered by the Parties throughout this proceeding. Therefore, I&E does not oppose these settled upon terms regarding UGI's universal service and other low-income issues as a full and fair compromise that provides

regulatory certainty and resolution of these issues, all of which facilitates the Commission's stated preference favoring negotiated settlements as in the public interest.

F. TRANSPORTATION (Joint Petition ¶¶ 50-63):

In the Settlement, the Joint Petitioners agreed to settlement terms regarding UGI's proposed choice and non-choice transportation program rules including the choice and non-choice transportation program rules generally; delivered supply service; non-choice daily balancing; Rate NNS; Rate MBS; acceptable substitute delivery points; capacity assignment; non-choice excess imbalances; supply nomination process; daily metering expansion; merger of southeast and southwest regions; eligible customer delivery list; producer list; and, access to storage. The specifics of the terms of the Settlement are fully set forth in the Joint Petition at paragraphs fifty (50) through sixty-three (63) and will not be restated here.

I&E did not submit testimony regarding these specific issues. Nevertheless, I&E shares the concerns of the interested Joint Petitioners. Further, I&E did not play an active role in the settlement negotiations regarding these issues, but did, however, monitor the proposals and counter proposals offered by the Parties throughout this proceeding. Therefore, I&E does not oppose these settled upon terms regarding the transportation issues as a full and fair compromise that provides regulatory certainty and a resolution of these issues, all of which facilitates the Commission's stated preference favoring negotiated settlements as in the public interest.

G. ACCOUNTING (Joint Petition ¶¶ 64-69):

In the Settlement, the Joint Petitioners agreed to the settlement terms regarding certain accounting treatments for certain costs and expenses including UGI's environmental cost recovery mechanism; ADIT/EDFIT; repairs allowance; UNITE/Hypercare; accounting for mechanical tee programs; and, depreciation rates. The specifics of the terms of the Settlement are fully set forth in the Joint Petition at paragraphs sixty-four (64) through sixty-nine (69) and will not be restated here.

I&E submitted testimony regarding UGI's proposed environmental remediation expense.³⁴ I&E did not submit testimony regarding the remaining accounting issues identified above. I&E shares the concerns of the interested Joint Petitioners and was involved in the settlement negotiations regarding these issues throughout this proceeding. Therefore, I&E does not oppose these settled upon terms regarding the accounting treatment for certain costs and expenses as a full and fair compromise that provides regulatory certainty and a resolution of these issues, all of which facilitates the Commission's stated preference favoring negotiated settlements as in the public interest.

H. SAFETY (Joint Petition ¶¶ 70-72):

In the Settlement, the Joint Petitioners agreed to settlement terms regarding various issues raised by the I&E Safety Division including risk analyses for the three rate districts; reducing restoration costs; and a stakeholder meeting with the Commission's Safety Division. Specifically, the settlement terms agreed to regarding these issues are as follows:

³⁴ I&E St. No. 1, pp. 26-30; I&E St. No. 1-SR, p. 26-28.

1. UGI Gas agrees to continue conducting separate risk analyses for each of the three districts and will continue to maintain a combined system-wide calculated risk for all assets across company territories in one master Distribution Integrity Management Program (“DIMP”) record which will be utilized for LTIP prioritization purposes.

2. UGI Gas agrees to continue taking affirmative steps to reduce restoration costs, through efforts including, but not limited to, coordinating pipe replacement projects with other street projects, and replacing pipe using trenchless construction techniques where technically and economically feasible.

3. UGI Gas agrees to hold a one-time stakeholder meeting with the Commission’s Safety Division, and any other interested parties to this proceeding, within sixty (60) days following the final order in this proceeding, to elicit input into potential strategies designed to reduce construction and restoration costs associated with pipeline replacement projects.

I&E submitted detailed testimony regarding UGI’s DIMP; UGI’s leak management; pipeline replacement scheduling; and, pipeline replacement restoration costs.³⁵ I&E noted that UGI proposed to continue to maintain a single combined DIMP for all operating districts.³⁶ However, in recognition of the differing system characteristics, UGI stated it intends to continue assessing, monitoring, and reporting risk separately for each operating district.³⁷ I&E, in turn, recommended that UGI not only

³⁵ I&E St. No. 5, pp. 2-13; I&E St. No. 6, pp. 1-17; I&E St. No. 6-SR, pp. 1-3.

³⁶ I&E St. No. 5, p. 12.

³⁷ *Id.*

conduct separate risk analyses for each of the three districts but should also create a combined system-wide calculated risk for all assets across company territories into one master DIMP record.³⁸ I&E also recommended that UGI provide all the DIMP scenarios during the I&E DIMP audit.³⁹

I&E also submitted testimony focused on discussing strategies that seek to reduce construction and restoration costs associated with pipeline replacement projects.⁴⁰ In that regard, I&E recommended that UGI take affirmative steps to reduce restoration costs through efforts including, but not limited to, coordinating pipe replacement projects with other street projects and replacing pipe using trenchless construction techniques where technically and economically feasible.⁴¹ Additionally, I&E recommended that UGI meet with the Commission's Safety Division, and any other interested parties, within 60 days following the final order in this proceeding, to discuss strategies that seek to reduce construction and restoration costs associated with all pipeline replacement projects; and, that any savings realized from reduced construction and restoration costs be invested into additional pipeline replacement projects.⁴² Finally I&E recommended that UGI agree to meet with the Commission's Safety Division and other parties to identify increasing state, county, and municipal requirements that exceed the Pennsylvania Department of

³⁸ I&E St. No. 5, p. 12.

³⁹ *Id.*

⁴⁰ I&E St. No. 6, pp. 6-17; I&E St. No. 6-SR, pp. 1-3.

⁴¹ I&E St. No. 6, p. 16.

⁴² *Id.*

Transportation restoration standards and add to the cost of pipeline replacements in an effort to develop coordinated potential responses to such requirements.⁴³

In consideration of all of the testimony presented and the various positions presented by the Company and the Joint Petitioners, I&E supports these settled upon terms as stated in the Joint Petition regarding the safety issues as a full and fair compromise that provides UGI, the Joint Petitioners, affected ratepayers, and the Commission with regulatory certainty and a resolution of the safety related concerns raised by I&E, all of which is in the public interest.

I. OTHER ISSUES (Joint Petition ¶ 73):

Interruptible Customer Competitive Analysis. In the Settlement, the Company agrees to maintain a competitive alternative analysis for each interruptible customer with alternate fuel capability every five (5) years. The competitive alternative analysis will include twelve (12) months of historical usage, the date the analysis was completed, and a reasonable proxy cost on an equivalent BTU basis the customer would incur to utilize the alternative fuel based on published index prices for the alternative fuel. The analysis will compare the Interruptible Service (“IS”) rates each customer pays with the cost that customer would incur to utilize the alternative fuel. The competitive analysis for each customer will include a listing of actual interruptions with dates and duration in the past five years. The first Interruptible Customer Competitive Analysis will be provided in the next base rate case.

⁴³ *Id.*

I&E submitted extensive testimony regarding the interruptible rate class tariff provisions and the interruptible customer competitive analysis.⁴⁴ I&E recommended two specific changes. First, the tariff should require the customer to provide a certification of the existence of the alternative fuel source to the Company.⁴⁵ Second, the tariff should require the Company to review the negotiated rate and alternative fuel source for IS customers every 5 years.⁴⁶ I&E also recommended that the Company perform and provide a competitive alternative analysis for each IS customer in the next base rate case, and every 5 years thereafter.⁴⁷

I&E reasoned that IS service should be reviewed to determine if more revenue should be received. While the total revenue may exceed the cost in the current cost of service study, the Company failed to provide the details of individual customers and rates to determine if all customers should be paying IS rates or rates that are higher.⁴⁸ Further, even though it can be argued that the Company has no incentive to short itself on IS revenue, particularly, in the short term between rate cases; the Company does have an incentive to gain as much IS revenue as it can because it keeps 100% of IS revenue, less incremental costs, until the next base rate case.⁴⁹ It also follows that the IS rate customers should be required to justify the lower IS rates they are receiving as a matter of fairness. I&E reasoned that no customer should be permitted to unfairly avoid paying

⁴⁴ I&E St. No. 3, pp. 15-19; I&E Exh. No. 3, Schs. 6-10; I&E St. No. 3-SR, pp. 14-21.

⁴⁵ I&E St. No. 3, pp. 17-19; I&E St. No. 3-SR, p. 14.

⁴⁶ *Id.*

⁴⁷ *Id.*

⁴⁸ I&E St. No. 3, pp. 17-18; I&E St. No. 3-SR, p. 18.

⁴⁹ I&E St. No. 3-SR, p. 20.

tariffed rates.⁵⁰ I&E argued its recommendation that the competitive alternative be routinely justified will provide more certainty to the validity of the customer's competitive alternative.⁵¹ Finally, I&E concluded that the Company and the Commission will be better informed concerning the IS rate the customer is being charged by regularly reviewing the customer's competitive alternative; and, the customer will be required to periodically justify the continuation of paying IS rates.⁵²

In consideration of all of the testimony presented and the various positions presented by the Company and the Joint Petitioners, I&E supports these settled upon terms as stated in the Joint Petition as a full and fair compromise that provides UGI, the Joint Petitioners, affected ratepayers, and the Commission with regulatory certainty and a resolution of the IS rate customer competitive analysis issue, all of which is in the public interest.

III. THE SETTLEMENT SATISFIES THE PUBLIC INTEREST

20. I&E represents that all issues raised in testimony have been satisfactorily resolved through discovery and discussions with the Company or are incorporated or considered in the resolution proposed in the Settlement. This Settlement exemplifies the benefits to be derived from a negotiated approach to resolving what can appear at first blush to be irreconcilable regulatory differences. Joint Petitioners have carefully discussed and negotiated all issues raised in this proceeding, and specifically those addressed and resolved in this Settlement. Further line-by-line identification of the

⁵⁰ I&E St. No. 3-SR, p. 20.

⁵¹ *Id.*

⁵² I&E St. No. 3, p. 18; I&E St. No. 3-SR, p. 21.

ultimate resolution of the disputed issues beyond those presented in the Settlement is not necessary as I&E represents that the Settlement maintains the proper balance of the interests of all parties. I&E is satisfied that no further action is necessary and considers its investigation of this rate filing complete.

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

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

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

24. If the ALJs recommend that the Commission adopt the Settlement as proposed, I&E agrees to waive the filing of Exceptions. However, I&E does not waive

its right to file Replies to Exceptions with respect to any modifications to the terms and conditions of the Settlement or any additional matters that may be proposed by the ALJs in their Recommended Decision. I&E also does not waive the right to file Replies in the event any party files Exceptions.

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

Respectfully Submitted,


Scott B. Granger
Prosecutor
PA Attorney I.D. # 63641

Bureau of Investigation and Enforcement
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, Pennsylvania 17120
(717) 787-4887

Dated: July 22, 2019

APPENDIX “C”

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2018-3006814
	:	
UGI Utilities, Inc. – Gas Division	:	

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

The Office of Consumer Advocate (OCA), a signatory party to the Joint Petition for Settlement (Settlement), finds that the proposed terms and conditions of the Settlement are in the public interest. The OCA respectfully requests that the Pennsylvania Public Utility Commission approve the Settlement without modification for the reasons set forth below:

I. INTRODUCTION

UGI Utilities, Inc. – Gas Division (UGI Gas or the Company) is engaged in the business of furnishing natural gas to approximately 639,000 residential, commercial and industrial customers in 45 counties throughout Pennsylvania. On January 28, 2019, UGI Gas filed Tariff Gas – Pa. P.U.C. Nos. 7 and 7S with the Pennsylvania Public Utility Commission (Commission) to become effective on March 29, 2019. In its tariff filing, the Company proposed to increase rates across its UGI Gas South, UGI Gas North, and UGI Gas Central rate districts to produce additional annual operating revenues of \$71.1 million, or an increase of 8.9%. The Company also proposed to unify rates among its three rate districts, including both distribution and purchased gas cost rates.

On January 31, 2019, the Commission's Bureau of Investigation and Enforcement (I&E) filed a Notice of Appearance in this matter. On February 7, 2019, the OCA filed a Formal Complaint in opposition to the Company's proposed rate increase. Also on February 7, 2019, the Office of Small Business Advocate (OSBA) filed a Complaint. On February 14, 2019, the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA) and the Commission on Economic Opportunity (CEO) filed Petitions to Intervene. On February 21, 2019, the Natural Gas Supplier Parties and the Retail Energy Supply Association (NGS Parties/RESA) filed a Petition to Intervene. On February 28, 2019, Direct Energy Business, LLC, Direct Energy Services, LLC and Direct Energy Business Marketing, LLC (Direct Energy) filed a Petition to Intervene. On March 7, 2019, the Laborers District Council of Eastern Pennsylvania (LDCEPA) filed a Petition to Intervene. On March 15, 2019, UGI Energy Services, LLC (UGIES) filed a Petition to Intervene. Additionally, the OCA is aware of seven formal complaints that were filed by individual consumers.

On February 28, 2019, the Commission entered an Order suspending Supplement Nos. 7 and 7S until October 29, 2019, pursuant to Section 1308(d) of the Public Utility Code, 66 Pa. C.S. Section 1308(d), and initiated an investigation into the lawfulness, justness, and reasonableness of the Company's proposed and existing rates, rules and regulations. Subsequently, this matter was assigned to Deputy Chief Administrative Law Judge Christopher P. Pell (ALJ Pell). A Prehearing Conference was held on March 13, 2019 and ALJ Pell issued a Prehearing Order setting forth a procedural schedule. On April 22, 2019, two Public Input Hearings were held in Harrisburg, Pennsylvania to seek consumer input regarding the proposed rate increase.

The OCA conducted extensive discovery and submitted testimony in accordance with the procedural schedule. On April 30, 2019, the OCA submitted the Direct Testimony of: Lafayette

K. Morgan, Jr., OCA Statement No. 1 (Public and CONFIDENTIAL versions); Kevin W. O'Donnell, OCA Statement No. 2; Jerome D. Mierzwa, OCA Statement No. 3; Roger D. Colton, OCA Statement No. 4; and Stacy L. Sherwood, OCA Statement No. 5. I&E, OSBA, CAUSE-PA, CEO, Direct Energy, the NGS Parties/RESA, and LDCEPA also filed Direct Testimony. On May 30, 2019, the OCA submitted the Rebuttal Testimony of Jerome D. Mierzwa, OCA Statement No. 3-R. UGI Gas, Direct Energy, and OSBA also filed Rebuttal Testimony. On June 13, 2019, the OCA submitted the Surrebuttal Testimony of: Lafayette K. Morgan, OCA Statement No. 1-S (Public and CONFIDENTIAL versions); Kevin W. O'Donnell, OCA Statement No. 2-S; Jerome D. Mierzwa, OCA Statement No. 3-S (Public and HIGHLY CONFIDENTIAL versions); Roger D. Colton, OCA Statement No. 4-S; and Stacy L. Sherwood, OCA Statement No. 5-S. I&E, OSBA, CAUSE-PA, Direct Energy, and the NGS Parties/RESA also filed Surrebuttal Testimony. The Company filed Rejoinder Testimony on June 18, 2019. The parties agreed to stipulate to the admission of the OCA's testimony and all OCA testimony was admitted into the record during the June 20, 2019 evidentiary hearing.

Pursuant to the Commission's policy of encouraging settlements, the parties participated in numerous settlement conferences throughout the course of this proceeding. Settlement discussions resulted in a settlement in principle on all issues.

II. SETTLEMENT TERMS AND CONDITIONS

The OCA submits that the terms of the Settlement satisfactorily address the issues raised by the OCA's analysis of the Company's filing. While the Settlement does not include all of the OCA's recommendations, the OCA recognizes that the Settlement is a product of compromise and represents a balance of the signatory parties' positions. In this Statement in Support, the OCA addresses only Settlement terms pertaining to issues it raised throughout the proceeding and looks

to other parties to discuss Settlement terms addressing their respective issues. The OCA submits that the Settlement, taken as a whole, is a reasonable compromise that reflects the range of likely outcomes in the event of full litigation before the Commission. The OCA further submits that, for the reasons set forth below, the Settlement is in the public interest.

A. Revenue Requirement (Settlement ¶¶ 17-21)

As stated above, in its filing the Company proposed to increase its total operating revenues by \$71.1 million per year or 8.9%. After reviewing the Company's filing, the OCA recommended a revenue decrease of approximately \$25.1 million. OCA St. No. 1 at 5. Under the Settlement, UGI Gas will be permitted a total annual revenue increase of \$30.0 million. Settlement ¶ 17. This represents an overall increase of 3.7% over present rates. The overall increase allowed by the Settlement is \$41.1 million less than the amount originally requested by the Company.

Under the settlement, on a total bill basis, a typical residential customer in the South Rate District using 62.3 Ccf per month will see their monthly bill increase from \$62.39 to \$68.39, or by \$6.00 or 9.6%. This is approximately \$4.54 per month less than the Company's original proposal.

Under the settlement, on a total bill basis, a typical residential customer in the North Rate District using 90.6 Ccf per month will see their monthly bill increase from \$89.64 to \$92.82, or by \$3.18 or 3.5%. This is approximately \$4.55 per month less than the Company's original proposal.

Under the settlement, on a total bill basis, a typical residential customer in the Central Rate District using 77.3 Ccf per month will see their monthly bill decrease from \$93.58 to \$81.35, a decrease of \$12.23 or 13.1%. This is approximately \$4.56 per month less than the Company's original proposal.

The Settlement also specifies that the revenue requirement includes annual expenditures on UGI Gas' Energy Efficiency and Conservation (EE&C) programs, including expansion of these programs into the UGI Central rate district. Settlement ¶ 21.

In general, the Settlement represents a "black box" approach to all individual revenue requirement issues. Black box settlements avoid the need for protracted disputes over the merits of individual revenue adjustments and avoid the need for a diverse group of stakeholders to attempt to reach a consensus on a variety of financial numbers. The OCA submits that it is unlikely that the parties would have been able to reach a consensus on each of the disputed accounting and ratemaking issues raised in this matter, as policy and legal positions can differ widely. As such, the parties have not specified a dollar amount for each issue or adjustment raised in this case. Attempting to reach an agreement regarding each adjustment in this proceeding would likely have prevented any settlement from being reached.

Based on an analysis of the Company's filing, discovery responses received, and testimony by all parties, the revenue increase under the Settlement represents a result that would be within the range of likely outcomes in the event of full litigation of this case. The increase is reasonable and yields a result that is in the public interest, particularly when accompanied by other important conditions contained in the Settlement as will be further discussed below. As such, the OCA submits that the increase agreed to in this Settlement is in the public interest and in the interest of the Company's ratepayers, and should be approved by the Commission.

B. Revenue Allocation/Rate Design (Settlement ¶¶ 22-31)

1. Revenue Allocation (Settlement ¶ 23)

The Settlement provides that approximately \$23.02 million of the rate increase will be allocated to residential customers. Settlement ¶ 23. The agreed upon revenue allocation reflects

a compromise and does not endorse any particular cost of service study. Based on the OCA's review of the cost of service studies presented in this proceeding and the varying allocation proposals presented by other parties, the OCA submits that the Settlement is within the range of reasonable outcomes that would result from the full litigation of this case. In addition, the Settlement is consistent with the objective of moving rate classes toward the system average rate of return. The OCA submits that the revenue allocation agreed to in the Settlement is reasonable and, when considered along with the other important provisions contained in the proposed Settlement, yields a result that is in the public interest.

2. Uniform Distribution Rates and Riders (Settlement ¶ 24)

In its filing, the Company proposed to adopt uniform customer charges and usage rates for distribution service as well as uniform purchased gas cost (PGC) rates for all rate districts. The OCA did not oppose UGI Gas' proposal to adopt uniform rates. OCA St. No. 3 at 35-36. Under the Settlement, the Company's proposal to move all rate classes to uniform distribution and purchased gas cost rates on the effective date of new rates established in this proceeding is accepted, except for Rate N/NT and Rate DS, which will be moved to uniform distribution rates in two steps. Settlement ¶ 24. Further, PGC rates will be consolidated as of the effective date of the new PGC year on December 1, 2019. Id. The OCA submits that this term represents a reasonable compromise that is in the public interest.

3. Monthly Customer Charges (Settlement ¶ 25)

In its filing, the Company proposed a residential customer charge of \$19.00 for all rate districts. This proposal would have increased the customer charge for UGI Gas South residential customers by \$7.25 from \$11.75 to \$19.00, or by 61.7%; for UGI Gas North residential customers by \$5.75 from \$13.25 to \$19.00, or by 43.3%; and for UGI Gas Central residential customers by

\$4.40 from \$14.60 to \$19.00, or by 30.1%. OCA witness Mierzwa testified that the existing Central Rate District customer charge of \$14.60 should be adopted for all rate districts because this would “provide for a residential customer charge that is consistent with the charges of other Pennsylvania NGDCs, provides for gradualism, and better promotes energy conservation than the charge proposed by the Company.” OCA St. No. 3 at 34.

The Settlement accepts the OCA’s recommendation and provides for a residential customer charge of \$14.60 for all rate districts. Settlement ¶ 25. This is \$4.40 less than UGI’s originally proposed \$19.00 customer charge. The OCA submits that this customer charge is reasonable and in the public interest.

4. Interruptible Revenue (Settlement ¶ 26)

In this proceeding, UGI Gas proposed to establish an Extension and Expansion Fund (EEF) to support the expansion of natural gas service into unserved and underserved areas. Typically, 100 percent of interruptible revenues are credited to the revenue requirement of firm customers. In this case, however, the Company proposed to instead fund the EEF with 20 percent of the interruptible revenues in the fully projected future test year (FPFTY), or approximately \$4.9 million per year, which would be used to reduce the surcharge paid by customers participating in the GET Gas program. Additionally, the Company proposed to create an incentive sharing mechanism which would allow the Company to retain 20 percent of FPFTY interruptible revenues, or approximately \$4.9 million per year. See OCA St. No. 3 at 37.

OCA witness Mierzwa opposed these interruptible revenue proposals. The Company’s shareholders currently provide funding to support the extension and expansion of natural gas service and should continue to do so, rather than requiring current ratepayers to provide additional funding as would be the case if the EEF is approved. Mr. Mierzwa also opposed the interruptible

sharing mechanism because it would allow the Company to earn a return exceeding that authorized by the Commission, and because the current ratemaking treatment of interruptible revenues already maximizes the Company's incentive to increase interruptible revenues. OCA St. No. 3 at 38; OCA St. No. 3-S at 1-4. Therefore, the OCA rejected UGI Gas' interruptible revenue proposals.

The Settlement accepts the OCA's position by withdrawing the proposed Extension and Expansion Fund and the Interruptible Sharing Mechanism, and reflecting the full amount of interruptible revenue in the Proof of Revenue. Settlement ¶ 26.

5. USP Rider (Settlement ¶ 28)

The Settlement reflects the agreement of the OCA and the Company in testimony regarding the level of the bad debt offset to be included in the Universal Service Program (USP) Rider.¹ The Settlement provides:

28. USP Rider. The Company's proposed Universal Service Program ("USP") Rider is accepted, provided that the 9.2 percent Customer Assistance Program ("CAP) Credit bad debt offset will be applied where CAP enrollment exceeds 19,672 CAP customers rather than the Company's proposed level of 21,530.

Settlement ¶ 28. OCA witness Colton accepted the Company's proposed 9.2% bad debt offset for CAP cost recovery. OCA St. No. 4 at 5. In Surrebuttal Testimony, Mr. Colton also accepted that the bad debt offset should be applied when the Company's CAP enrollment reaches 19,672 CAP customers. OCA St. No. 4-SR at 17; see also, Company St. No. 10-R at 38.

The purpose of the bad debt offset is to reflect the "extent to which low-income customers who do not participate in CAP cause the utility to incur bad debt expense." OCA St. No. 4 at 20. The Settlement achieves this goal and is also consistent with the Commission's CAP Policy Statement regarding CAP cost recovery. The Commission's CAP Policy Statement provides that

¹ The bad debt offset is to be "applied to the incremental number of CAP participants which exceeds the base number of participants experienced in the most recent period with actual, known data." OCA St. No. 4 at 20.

cost recovery for universal services programs should include “both the expenses associated with operating the CAPs as well as the potential decrease of customer utility operating expenses” including bad debt. 52 Pa. Code § 69.266. The proposed bad debt offset is in the public interest and should be approved.

6. PGC Revenue Adjustment (Settlement ¶ 30)

The Company recently discovered a mathematical error in its PGC calculations that resulted in an over collection from certain customers. In order to address this, UGI Gas proposed to credit \$5,418,678 to customers through PGC rates beginning on the effective date of rates in this proceeding. See OCA St. No. 3 at 45. The OCA took issue with the Company’s method of calculating the interest due to customers. OCA St. No. 3 at 46. OCA witness Mierzwa testified that “the amount to be refunded to PGC customers should reflect interest from December 2009 until the refund is fully returned to PGC customers.” Id. Further, Mr. Mierzwa stated that this issue should be addressed in the Company’s annual PGC proceeding rather than in the base rate case. Id.

The Settlement provides that the PGC Revenue over collection issue will be addressed in the currently pending PGC proceeding.² Settlement ¶ 30. The OCA is a party to the PGC proceeding and will address its concerns in that case.

7. ACH/Credit Card Fee Waiver (Settlement ¶ 31)

In its filing, the Company proposed to include fees associated with ACH and similar transaction fees in its revenue requirement rather than requiring individual customers to pay those transaction fees. OCA witness Colton recommended approval of this proposal.³ OCA St. No. 4

² Docket No. R-2019-3009647.

³ OCA witness Lafayette K. Morgan, Jr. expressed concern with the Company’s proposed increase to O&M expense to recover an additional 30% in fees to reflect an expected increase in such transactions. OCA St. No. 1 at

at 55-57. Mr. Colton testified that this proposal is reasonable and “will likely benefit rather than harm low- and moderate income households.” OCA St. No. 4 at 57. The Settlement accepts this proposal to eliminate credit card fees. Settlement ¶ 31. For the reasons discussed in the OCA’s testimony, the OCA submits that this item is in the public interest.

C. Energy Efficiency and Conservation (Settlement ¶¶ 32-36)

The Settlement provides that UGI’s current North and South rate district Energy Efficiency and Conservation (EE&C) programs will be extended to the Central rate district for the five year period FY 2020 through FY 2024. Settlement ¶ 32. In her Direct Testimony, OCA witness Sherwood recommended changes to the Company’s proposed Energy Efficiency and Conservation Plan. See generally, OCA St. No. 5. The Settlement addresses a number of these concerns regarding the evaluation costs, the allocation of the program budgets, and the waiver of the assessment fee in the Residential Retrofit program (RR) for LIURP participants. Settlement ¶¶ 33-34, 36.⁴

Ms. Sherwood identified a concern that the Company’s proposed EE&C Plan did not correctly allocate evaluation costs to the non-residential and non-transportation Rate N/NT class even though programs and projects performed on behalf of Rate N/NT customers would be included in the evaluation. OCA St. No. 5 at 15-16. The Settlement addresses this concern and provides that “evaluation costs will be allocated amongst all rate classes for ratemaking recovery as they are incurred.” Settlement ¶ 33.

OCA witness Sherwood also identified a concern in that the Company did not propose individual program budget caps because the Company wanted flexibility to shift funds between

32-33. Mr. Morgan’s testimony did not oppose the proposal to include transaction fees in revenue requirement, but rather reflected a specific adjustment to O&M expense.

⁴ Ms. Sherwood also raised concerns regarding the LIURP program, and the Settlement terms addressing LIURP have been addressed in Subsection D, Universal Services and Other Low Income Issues below.

programs and years. OCA St. No. 5 at 11. Ms. Sherwood was concerned that this flexibility “may result in significantly higher or lower investments in energy efficiency by rate class than was originally approved and, as a result, may not produce the results expected.” *Id.* She recommended that budget flexibility be granted within ratepayer portfolios and that the flexibility should be limited to 25% of the program’s total budget.

The Settlement implements Ms. Sherwood’s recommendations and provides that:

34. Program Budgets. EE&C program budgets will be restricted so that program funds cannot be moved between residential and nonresidential rate classes. Budget flexibility within a rate class’ portfolio should be limited to twenty-five (25) percent of a program’s five-year total budget. The parties agree the Company will petition the Commission for approval of changes of twenty-five (25) percent or more of a five-year total program budget within a rate class.

Settlement ¶ 34. Under the Settlement, the Company will have the flexibility to shift funds, but at the same time, the flexibility will be limited to the specific class portfolios and be capped at 25% of the five-year budget.

OCA witness Sherwood recommended that a low-income component be included in the Company’s EE&C Plan, and the assessment fee under the Residential Retrofit (RR) program should be waived for all eligible LIURP participants. OCA St. No. 5 at 9-11. The RR program is an audit program that provides direct install measures and recommendations for deeper retrofits and has an initial assessment fee of \$100. OCA St. No. 5 at 9. The Settlement adopts this recommendation and provides:

36. Assessment Fee for LIURP Participants. Starting with the effective date of new rates established in this proceeding, customers who contact UGI LIURP Team and who are determined by the UGI LIURP Team to have income at or below two hundred (200) percent of FPL, but who do not meet LIURP high energy usage thresholds, or who request direct install measures not offered by LIURP but offered by the EE&C Residential Retrofit (RR) Program, will be referred to the RR Program to receive a fee-waived assessment. The RR assessment fee waiver, including all direct install measures implemented under a fee-waived assessment, will be capped at \$250,000 annually. The \$250,000 is not incremental of the RR

Program budget. Direct install measures shall include, but not be limited to: smart thermostats, low flow devices, and water heater tank temperature setback.

Settlement ¶ 36. The RR provides participants direct install measures, such as a smart thermostat, that may not otherwise be available to the low-income customer through the LIURP program and also would serve low-income customers who otherwise do not meet the LIURP high energy usage thresholds.

The Settlement provides that the Company will have a specific low-income component to their residential EE&C program. Each of the Act 129 programs contains a low-income program. See, Phase III Implementation Order, Docket No. M-2014-2424864 at 69 (June 11, 2015). The Settlement will provide low-income customers with a benefit from the Plan at no cost to them.

The OCA submits that the Settlement implements several of OCA witness Sherwood's recommendations. The Settlement provisions will ensure that the Company's evaluation costs are appropriately allocated, that the Company will have appropriate flexibility to shift funds within the portfolios, and that low-income customers will have the ability to receive a benefit from the EE&C Plan program. The OCA submits that the EE&C Plan provisions are in the public interest and should be approved.

D. Universal Services and Other Low-Income Issues (Settlement ¶¶ 37-49)

In his Direct Testimony, OCA witness Colton provided recommendations to address low-income and universal services issues that he identified in reviewing the Company's base rate filing. See generally, OCA St. No. 4. The Settlement addresses a number of these concerns. In particular, the Settlement provides:

38. Distribution of Universal Services Funding. The Company will maintain its current funding allocation as proposed in its pending USECP at Docket No. M-2017-2598190 across the geographic footprint of its former three rate districts unless and until a new allocation is proposed and approved as part of its next triennial USECP filing. Any additional funding agreed to in this proceeding will

be distributed accordingly. The Company is permitted to reallocate no more than five (5) percent of that initial allocation across its former rate districts in a given program year. The parties may raise issues about the Company's Consolidated LIURP and Hardship Fund program in the next triennial USEP plan filing. Any revision to this funding allocation will be circulated to all parties and shared with Commission staff at the Bureau of Consumer Services, and will include data about the actual spending for each of the two programs to date.

39. Unspent Program Dollars. Unspent program dollars for UGI Gas's Consolidated LIURP and Hardship Fund programs at the end of a program year will roll over and be added to the budget for the following year.

42. Third Party Notification (TPN) Program. UGI will agree to provide TPN forms to its CBOs [Community Based Organizations] for inclusion in their assistance applications. To the extent that CBOs charge UGI Gas for these TPN forms, UGI Gas will be permitted to recover these costs through the USP Rider.

43. Forms of Income Verification for Cold Weather Protections. UGI Gas will agree to amend its tariff language on cold weather protection to adopt the language from the Columbia Gas of Pennsylvania tariff. UGI Gas's tariff will be revised to state as follows: "The Company will use financial information from the customer provided within the most recent twelve (12) month period to determine if a customer exceeds the 250% federal poverty threshold."

48. Budget Billing Enrollment. UGI Gas will eliminate its restriction on Budget Billing enrollment that bars the enrollment of customers in arrears in Budget Billing. Any arrearage balance and payments towards the arrearage balance will be accounted for separately from the customer's Budget Bill amount.

Settlement ¶¶ 38-39, 42-43, 48.

The OCA submits that these terms are in the public interest in that they provide necessary steps toward remedying issues related to integration of the LIURP and Hardship Fund budgets, Budget Billing outreach, and cold weather protections. Specifically, the Budget Billing provisions will help to ensure access to Budget Billing for customers in arrears.

The Settlement will increase the funding for the Company's weatherization program, LIURP, by \$400,000 and the Emergency Furnace Repair program, by \$100,000, and recover the costs through the USP Rider. Settlement ¶¶ 35, 40; see also, OCA St. No. 5 at 4, 7-9. The Company will then remove \$100,000 that is currently recovered through the EE&C Plan Rider.

Settlement ¶ 41. Increasing LIURP funding will work to benefit both CAP customers and non-CAP residential customers who pay the costs of the program. Low-income customers will receive the benefit of lower energy bills, and non-low-income customers will benefit because lower energy usage will decrease the amount of the CAP shortfall. The Emergency Furnace Repair program increase will also provide additional assistance to low-income customers in need of furnace repair or replacement to help customers maintain service.

The Settlement includes additional provisions that address government identification to establish service and the treatment of deposits for low-income customers. Settlement ¶¶ 44-45. Under the Settlement, on a monthly basis, UGI Gas will review currently held security deposits and “issue a bill credit or refund for any deposit previously collected from a confirmed low income customer.” Settlement ¶ 46. The Company will continue this review process for security deposits until a permanent resolution for its billing system is complete and operational. Settlement ¶ 46. Under the Settlement, the Company will review CAP rates for those enrolled in the average bill or percentage of income CAP rate plans to determine whether a more affordable rate plan is available, and if applicable, the customer’s CAP rate will be adjusted to the lowest available rate at the time of the review. Settlement ¶ 47.

The low-income customer provisions will provide additional residential and low-income customer protections, will help to ensure the availability of essential programs to low-income customers, will help to ensure that CAP customers are provided the lowest available rate, and will ensure equitable cost recovery for the residential ratepayers that pay the costs of the program. Accordingly, the low-income customer provisions of the Settlement are in the public interest and should be approved.

E. Transportation (Settlement ¶¶ 50-63)

1. Rate NNS (Settlement ¶ 53)

The Company proposed to unify charges for Rate NNS (No-Notice Service) in this proceeding. OCA witness Mierzwa explained as follows:

Under the current tariffs in each Rate District, transportation customers served under Rate Schedules DS, LFD, XD, and IS are required to use their best efforts to balance deliveries on their behalf with their usage. On a daily basis, customers in each Rate District are allowed imbalance tolerances which if exceeded, will result in the assessment of Daily Balancing Charges. The current daily imbalance tolerance for the North and Central Rate Districts is +/- 2.5 percent, and +/- 10.0 percent for the South District. The Daily Balancing Charges assessed for exceeding the daily imbalance tolerance vary by Rate District and whether the imbalance occurs on a Critical Day or Non-Critical Day.

Under Rate NNS, the Company either forwards or banks supplies to customers on a daily basis in amounts necessary to balance the customers' daily deliveries with daily consumption. In essence, Rate NNS increases the daily imbalance tolerance available to transportation customers. Customers elect the amount of NNS they wish to purchase (No-Notice Allowance or "NNA"). Customers may elect an NNA in an amount no less than the daily imbalance tolerance applicable to the maximum firm daily contract requirements ("DFR") to 100 percent of their DFR. Therefore, customers in the North and Central Rate Districts can elect an NNA of between 2.5 percent and 100 percent of their DFR, and customers in the South Rate District can elect an NNA of between 10.0 percent and 100 percent of the DFR. Currently, different rates for service under Rate NNS are applicable in each Rate District.

OCA St. No. 3 at 39. The OCA did not oppose unifying the Rate NNS charges, but OCA witness Mierzwa testified that the proposed unified charge was not reasonable. OCA St. No. 3 at 40. The proposed Rate NNS charge was based on a storage trip cost of \$0.1315 per Mcf. As Mr. Mierzwa explained:

The storage trip costs only include the variable costs associated with providing service under Rate NNS. PGC and non-Choice transportation customers are currently responsible for all of the demand charges associated with the interstate pipeline storage resources utilized to provide Rate NNS, and under UGI Gas' Rate NNS rate design, receive no contribution for the demand charges associated with the storage resources utilized to provide service under Rate NNS. This is unreasonable.

OCA St. No. 3 at 40. Mr. Mierzwa recommended that the storage trip cost be adjusted to include demand charges associated with providing service under Rate NNS on a 100 percent load factor basis, which would increase the storage trip cost to \$0.998 per Mcf. Id.

The Settlement provides that “[t]he Company will adjust the storage trip cost in the calculation of Rate NNS charges to \$0.3483 per Mcf.” Settlement ¶ 53. The OCA submits that a storage trip cost of \$0.3483 per Mcf is a reasonable compromise that is between the OCA’s and the Company’s positions and will help to ensure that the Rate NNS charge is calculated in a way that treats PGC and non-Choice transportation customers fairly. As such, this term is in the public interest and should be approved.

2. Rate MBS (Settlement ¶ 54)

Similar to the daily balancing charges associated with Rate NNS discussed above, UGI also proposed to unify charges for Rate MBS (Monthly Balancing Service), which provides a monthly balancing service that allows transportation imbalances of up to 10 percent per month. OCA St. No. 3 at 41-42. The OCA did not oppose unifying the Rate MBS charges, but OCA witness Mierzwa testified that the proposed unified charge was not reasonable. The proposed Rate MBS charges were based on an average capacity charge for storage service of \$0.6439 per Mcf and an anticipated average transportation customer monthly imbalance of 1.54 percent. As Mr. Mierzwa explained:

The average capacity charge for storage only includes the seasonal capacity demand charges associated with the storage resources utilized to provide service under Rate MBS. The proposed charges for Rate MBS are unreasonable because they do not provide any contributions to PGC and non-Choice transportation customers for the daily deliverability demand charges associated with the interstate pipeline resources utilized to provide service under Rate MBS. The proposed charges are also unreasonable because they are based on an anticipated transportation customer imbalance of 1.54 percent when Rate MBS provides for an additional monthly imbalance tolerance of 5 percent.

OCA St. No. 3 at 42-43. Mr. Mierzwa recommended that the average capacity charge for storage be adjusted to include storage daily deliverability demand charges, which would increase the charge from \$0.6439 Mcf to \$0.8660 Mcf. He also recommended that the transportation customer monthly imbalance be increased to 5 percent to reflect the additional 5 percent monthly imbalance tolerance provided under Rate MBS. OCA St. No. 3 at 43.

The Settlement addresses the OCA's concerns by accepting the OCA's proposal to include storage demand charges on a 100 percent load factor basis in the development of Rate MBS. Settlement ¶ 54. The Settlement also provides that the Company will "update the average monthly imbalance utilized in the development of Rate MBS charges annually with the actual average monthly imbalance for the 12 month period ending September to determine the new Rate MBS charges effective December 1 each year." *Id.* The OCA submits that these terms represent a reasonable compromise that will help to ensure that the Rate MBS charge is calculated in a way that treats PGC and non-Choice transportation customers fairly. As such, this term is in the public interest and should be approved.

3. Capacity Assignment (Settlement ¶ 56)

In its filing, the Company proposed to assess a charge to Rate DS and Rate LFD customers in each rate district for released capacity based on the Company's weighted average cost of firm transportation capacity (WACOD). OCA witness Mierzwa expressed concern with this proposal:

UGI Gas' WACOD calculation is based on the demand charges associated with the firm transportation arrangements and delivered supply services under contract in each Rate District. The Company has excluded the demand charges associated with the peaking contracts. The demand charges associated with UGI Gas' peaking contracts are generally higher than the demand charges associated with the Company's firm transportation arrangements and delivered supply services. Rate DS and LFD customers should not have preferential access to the Company's lower cost capacity resources with PGC and Choice transportation customers being held responsible for the higher demand charges associated with the Company's peaking

service contracts. Therefore, UGI Gas' WACOD calculation should be revised to include peaking contract demand charges.

OCA St. No. 3 at 44. Mr. Mierzwa had similar concerns with the Company's proposal to continue the existing procedures for the release of capacity to Rate XD customers in the South rate district because it would provide "preferential access to the Company's lowest cost capacity resources while PGC and Choice transportation customers are held responsible for the costs associated with the Company's higher cost capacity resources." OCA St. No. 3 at 45. Mr. Mierzwa recommended that Rate XD customers should continue to be assigned Columbia pipeline capacity until their current service contracts expire, at which time Rate XD customers should be assessed charges for released capacity based on the OCA's revised WACOD calculation for DS and LFD customers.

Id.

The Settlement provides that, as of November 1, 2020, "[t]he WACOD charges for Rate DS shall include the associated demand charges for Peaking Services on a 100% percent basis, and the revised WACOD will be assessed to all Rate DS transportation customers." Settlement ¶ 56(a). This accepts the OCA's recommendation as to Rate DS customers. The Settlement further provides that "[t]he WACOD charges for Rate LFD shall include the associated demand charges of Peaking Services on a 50% percent basis, and the revised WACOD will be assessed to all Rate LFD customers electing assigned capacity." Settlement ¶ 56(b). While this term only includes 50% of peaking services, the OCA submits that this represents a reasonable compromise and ensures that Rate LFD customers are being charged a more appropriate level of demand charges for peaking services.

In order to ensure that the charges reflect the cost of gas that is used by Rate DS and LFD customers, the Settlement provides that:

The resulting WACOD charges under (i) and (ii) shall be reduced by the Economic Benefit of Peaking Service commodity supply defined in Rule 22A.6 (EBPS Credit), which shall be included as a monthly deduction (credit) to the WACOD calculation for Rate DS and Rate LFD customers on an actual experienced basis, subject to review and reconciliation through the 2021 PGC filing.

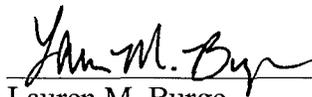
Settlement ¶ 56(c). Importantly, this term allows for review of the EBPS Credit as part of the Company's 2021 PGC proceeding. The new WACOD calculations will go into effect on November 1, 2020 and will be reviewed in the PGC case that will be filed on or about June 1, 2021. This will allow the parties to review approximately seven months of data to determine whether the crediting mechanism is functioning and being calculated appropriately based on actual experience. The Settlement further provides that this term will be implemented on a pilot basis, and will become a permanent program unless modified as proposed either by the Company or any other party for periods after December 1, 2021 (i.e. the effective date of rates resulting from the Company's 2021 PGC proceeding). Settlement ¶ 56(d). This preserves the OCA's rights and the rights of all other parties to challenge or modify the crediting mechanism as necessary based on actual data.

The OCA submits that the Capacity Assignment term represents a reasonable compromise that helps to ensure that costs are being appropriately assigned to Rate DS and Rate LFD customers. This term also provides the OCA and other parties the opportunity to review and challenge or modify the crediting mechanism in future proceedings once additional data is available. As such, the OCA submits that this term is in the public interest and should be approved.

III. CONCLUSION

For the reasons set forth above, the OCA submits that the terms and conditions of the proposed Settlement are reasonable and in the public interest. Therefore, the OCA respectfully requests that the Commission approve the terms of the Settlement without modification.

Respectfully Submitted,



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Dated: July 22, 2019

APPENDIX “D”

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2018-3006814
	:	
UGI Utilities, Inc. – Gas Division	:	

**STATEMENT OF
THE OFFICE OF SMALL BUSINESS ADVOCATE
IN SUPPORT OF THE
JOINT PETITION FOR APPROVAL OF SETTLEMENT OF ALL ISSUES**

Introduction

The Small Business Advocate is authorized and directed to represent the interests of the small business consumers of utility services in the Commonwealth of Pennsylvania under the provisions of the Small Business Advocate Act, Act 181 of 1988, 73 P.S. §§ 399.41 - 399.50. Pursuant to that statutory authority, the Office of Small Business Advocate (“OSBA”) filed a complaint against the rates, terms, and other provisions of Tariff Gas – Pa. P.U.C. Nos. 7 and 7S, which were filed with the Pennsylvania Public Utility Commission (“Commission”) by UGI Utilities, Inc. – Gas Division (“UGI Gas” or the “Company”) on January 28, 2019.

The proposed Tariffs, if approved by the Commission, would have increased the Company’s annual revenue by approximately \$71.1 million per year.

In addition, UGI Gas proposed to create uniform rates by rate class, including base rates, purchased gas cost (“PGC”) charges, and other rider charges, for the UGI Gas South, North and Central Rate Districts. UGI Gas also proposed to establish uniform choice and non-choice transportation programs applicable to all customers and natural gas suppliers.

The OSBA actively participated in the negotiations that led to the proposed settlement and is a signatory to the Joint Petition for Approval of Settlement of All Issues (“*Joint Petition*”). The OSBA submits this statement in support of the *Joint Petition*.

The Joint Petition

The *Joint Petition* sets forth a list of issues that were resolved through the negotiation process. The following issues were of particular significance to the OSBA when it concluded that the *Joint Petition* was in the best interests of UGI’s small business customers.

1. The UGI Gas Interruptible Revenue Sharing Proposal

In this proceeding, UGI Gas proposed an interruptible revenue sharing mechanism.

OSBA witness Robert D. Knecht described the Company proposal, as follows:

[T]he Company offers a revenue sharing proposal for the revenues that it generates from its interruptible service customers, in which 60 percent would be reflected as rate class revenues used to offset regular distribution system costs. Of the balance, 20 percent would be used as funding for an Extension and Expansion Fund (‘EEF’). The EEF would be used to try to put the ‘GET Gas’ program back on track and to fund Pennsylvania’s Pipeline Investment Program (‘PIPE’). The final 20 percent would serve as a supplementary return to UGI shareholders as a reward for management efforts to obtain and increase interruptible service revenues.

OSBA Statement No. 1, at 7.

As a result, UGI Gas reported that current rates revenues for interruptible customers in the forecast test year would be reduced to \$15.0 million, rather than the full \$24.6 million. The Company’s revenue sharing proposal resulted in UGI Gas overstating its need for an annual base rate increase by approximately \$9.6 million. I&E Direct Testimony Statement No. 3, at 53.

The OSBA flatly rejected the UGI Gas revenue sharing proposal. Mr. Knecht testified to a laundry list of reasons why the Company’s proposal was unjust, unreasonable, and

unnecessary. *See* OSBA Statement No. 1, at 8-10. A summary of Mr. Knecht's testimony on this issue is set forth below:

- The Company's proposal would provide revenue to fund the GET Gas program from existing interruptible customers. However, the GET Gas program was not designed to require subsidies from existing ratepayers to fund new customer attachments;
- The UGI Gas proposal would provide additional return to the Company's shareholders. Supplementary rewards from interruptible revenues would result in excessive returns to shareholders;
- The Company already has strong incentives to maximize interruptible service revenues, and has no need for any additional incentive mechanism;
- The Company is already fully recovering the costs it incurs obtaining its interruptible revenues, and has no need for an additional mechanism to recover those costs;
- The UGI Gas proposal would encourage the Company to promote interruptible service in order to maximize the proposed bonus award; and
- The proposal is unnecessary, since UGI Gas has increased its interruptible service revenues over the past three years.

OSBA Statement No. 1, at 8-10.

The *Joint Petition* rejects the Company's position in its entirety and specifies that current rates revenue for interruptible customers be set at \$24.602 million. *Joint Petition*, Paragraph 26.

The *Joint Petition* is fully in accordance with Mr. Knecht's testimony. Therefore, the OSBA supports the *Joint Petition's* resolution of this issue.

2. Cost of Service Study Methodology

OSBA witness Robert D. Knecht explained the purpose of a cost of service study (“COSS”), as follows:

The most important criterion for setting regulated utility rates is the cost incurred by the utility for providing the service. To assign costs to specific customers, utilities aggregate customers into rate classes, within which the customers have similar load sizes, seasonal consumption, peak demand patterns, and other characteristics. A [COSS] is an analytical tool with which the utility’s total cost (or ‘revenue requirement’) is allocated among each of the rate classes. These allocated costs are then used as a key input in determining the total revenues that the utility plans to recover from each rate class through tariff rates.

OSBA Statement No. 1, at 5 (footnote omitted).

The Company submitted a “combined” COSS and separate COSS’s for each of the three rate districts. A description of the COSS methodology is presented in the testimony of Mr. Paul Herbert of Gannett Fleming Valuation and Rate Consultants, LLC. Mr. Knecht also presented a COSS in this proceeding. *See* OSBA Statement No. 1, at 11-22 and Exhibit IEC-2. As is typical of base rates proceedings, COSS methodology was a contentious issue. *See, e.g.*, OSBA Statement No. 1-R, at 5-9.

The *Joint Petition* does not adopt any specific COSS methodology. The *Joint Petition* simply sets forth tables of revenue allocation by class, and customer charges by class. *See Joint Petition*, at Paragraphs 23 and 25. The OSBA supports the *Joint Petition* resolution of this issue (essentially by not selecting any one COSS methodology) because the parties were able to reach a settlement on the revenue allocation among the various customer classes.

3. Revenue Allocation

Mr. Knecht summarized the issue of revenue allocation, as follows:

Revenue allocation is the assignment of the dollar net increase or decrease to each of the Company's rate classes in a base rates proceeding. In contrast, *rate design* determines how the allocated revenue is recovered from individual ratepayers within each class. From a cost recovery standpoint, revenue allocation addresses *inter-class* cross-subsidization issues, while rate design addresses *intra-class* cross-subsidization issues.

OSBA Statement No. 1, at 23 (emphasis in original).

As set forth above, Mr. Knecht created his own COSS in this proceeding. Mr. Knecht stated the resulting revenue allocation from his COSS, as follows:

Table IEC-4 below shows the class rates of return at current rates, as well as the dollar cross-subsidy if an across-the-board rate increase were imposed. As shown, the interruptible class has a negative rate of return, even with the modifications to the demand allocation factor described in the previous section. In addition, the Residential class is being heavily subsidized. Because the Residential class represents a large share of distribution costs, the dollar value of the cross-subsidy is relatively large. On a percentage basis, however, the subsidy to the IS customers is larger. Conversely, the N/NT, DS, LFD and XD classes all provide significant cross-subsidies to the R/RT and IS classes.

OSBA Statement No. 1, at 25. Table IEC-4 is set forth below.

Table IEC-4 Implications of IEC CSAS for Revenue Allocation		
	Rate of Return Present Rates	Cross-Subsidy* (\$mm)
R/RT	3.1%	\$69.2
N/NT	8.7%	(\$13.8)
DS	14.3%	(\$12.0)
LFD	17.9%	\$(16.5)
XD	17.9%	(\$14.4)
IS	26.3%	(\$12.4)
System	6.6%	--
*A positive cross-subsidy value indicates the class is being subsidized; a negative value indicates it is providing the subsidy. Source: Exhibit IEC-2		

OSBA Statement No. 1, at 25.

Consequently, the OSBA had the following revenue allocation recommendations. First, reduce the cross-subsidy provided to the residential R/RT class. In the interest of gradualism, the OSBA would assign a 1.5 times system average increase to the R/RT class. *Id.*, at 25-26.

Second, for the XD and IS rate classes, Mr. Knecht's COSS shows significant over-recovery of costs. However, UGI Gas proposed small changes to those rates, which is acceptable to the OSBA. *Id.*, at 26.

Third, the remaining increase is shared among the N/NT, DS, and LFD classes. The OSBA would assign small increases to the DS and LFD classes, and recover the balance from the N/NT class. *Id.*

The results of the OSBA recommendations, at the Company's original, full revenue requirement of \$61.5 million (which includes all interruptible service revenue) are set forth below:

Table IEC-5 RDK Proposed Revenue Allocation \$mm					
	Proposed Revenue Increase	Percent Increase	Current Cross-Subsidy*	Proposed Cross-Subsidy*	Reduction in Cross-Subsidy
R/RT	\$49.12	16.9%	\$69.2	\$53.3	23%
N/NT	\$ 9.96	8.3%	(\$13.8)	(\$10.1)	27%
DS	\$ 1.03	3.0%	(\$12.0)	(\$9.2)	24%
LFD	\$ 0.54	1.5%	\$(16.5)	(\$13.0)	21%
XD	\$ 0.95	2.5%	(\$14.4)	(\$11.1)	23%
IS	(\$0.10)	-0.5%	(\$12.4)	(\$10.0)	19%
System	\$61.50	11.4%	--	--	--

*A positive cross-subsidy value indicates the class is being subsidized; a negative value indicates it is providing the subsidy.
Source: Exhibit IEC-2

OSBA Statement No. 1, at 26.

The *Joint Petition* accomplishes the recommendations advocated by the OSBA:

	Total	R/RT	N/NT	DS	LFD	XD Firm	Interruptible
Current Rates Revenue (\$mm)	\$537.7	\$290.4	\$119.3	\$34.2	\$35.8	\$33.4	\$24.50
Revenue Allocation (\$mm)	\$30.0	\$23.02	\$4.85	\$0.49	\$0.79	\$0.95	-\$0.10
Percent Increase	5.6%	7.9%	4.1%	1.4%	2.2%	2.9%	-0.4%
Share of Increase	100.0%	76.7%	16.2%	1.6%	2.6%	3.2%	-0.3%

Specifically, the R/RT class receives approximately 77% of the revenue increase, thereby reducing the subsidy previously enjoyed by that rate class. While strict adherence to the standard of allocated cost would have demanded a higher increase from the R/RT class under any cost allocation study filed in this proceeding, the rules of gradualism espoused by the Company, OCA, and OSBA witnesses served to limit the increase, in both litigation and settlement positions. Rate XD does not receive either a rate increase or decrease. Finally, rate classes

N/NT, DS, and LFD receive significantly reduced increases, thereby lessening the subsidies provided by these rate classes.

Consequently, the OSBA supports the revenue allocation proposal set forth in the *Joint Petition*. See *Joint Petition*, at Paragraph 23.

4. Rate Harmonization

Mr. Knecht explained the UGI Gas proposal to harmonize rates, as follows:

[T]he Company proposes to harmonize all of its tariff rates in this proceeding. This proposal includes harmonizing the PGC rates, even though this is a base rates proceeding.

* * *

Table IEc-6 below shows the Company's proposed average increase by rate class and rate district. In preparing this table, I measured percentage increase relative to existing base rates excluding the cost of purchased gas. While I do not disagree with the Company that it makes sense to harmonize PGC rates in this proceeding, I disagree that percentage changes should be evaluated on a total utility bill basis. This is a base rates proceeding, and no overall change in PGC is reflected.

* * *

It is not reasonable to try to disguise the magnitude of a base rate increase percentages by including costs in the denominator of the ratio that are not subject to any increase.

OSBA Statement No. 1, at 27. Table IEc-6 is set forth below:

Table IEC-6				
UGI Gas Proposed Rate Increases by District				
	Total	South	North	Central
R/RT	18.8%	33.5%	14.4%	-12.4%
N/NT	11.4%	2.5%	34.6%	16.3%
DS	3.8%	-13.1%	50.1%	9.2%
LFD	1.7%	-2.3%	26.3%	-7.8%
XD	2.9%	3.9%	3.1%	-0.4%
IS	-0.4%	-0.3%	1.0%	-1.9%
System	13.2%	16.0%	18.5%	-4.0%
Inclusive of PGC harmonization effects by class; measured as a percent of base rates. Source: Exhibit IEC-2				

OSBA Statement No. 1, at 27.

Mr. Knecht explained the implication of the Company's rate harmonization proposal, as follows:

It is simply not reasonable to achieve rate harmony in a single proceeding. The extremely large rate differences that currently exist between rate districts are too large to eliminate in one step. Moreover, reducing the overall level of increase will not make rate harmonization any more palatable, since it is the rate differentials between districts that must be addressed.

Thus, for example, the 46 percent spread between Residential South and Residential Central increases would need to be reflected in the revenue allocation among districts, as would the 63 percent spread between DS South and DS North, if harmonization is to be achieved.

OSBA Statement No. 1, at 29 (formatting added). Mr. Knecht concluded:

The revenue allocation and rate harmonization goal for this proceeding should therefore be to make reasonable progress toward harmonizing rates, while simultaneously making reasonable progress toward moving rates into line with allocated costs.

Id.

The *Joint Petition* follows the recommendation of Mr. Knecht. Specifically, the *Joint Petition* proposes a multi-step rate harmonization process for the N/NT North District rates and DS South and Central District rates. *See Joint Petition*, at Paragraph 35. The *Joint Petition* proposes that these rate classes receive a limited rate increase, with further rate increases to be addressed in future UGI Gas base rates proceedings. This will significantly reduce the rate impact upon small commercial and industrial customers in those rate districts that would otherwise have been caused by the full rate harmonization proposed by the Company.

The OSBA supports the resolution of the rate harmonization issue as set forth in the *Joint Petition*, as it both comports with the testimony of Mr. Knecht and obeys the principle of rate gradualism.

5. The UGI GET Gas Program

The OSBA had two significant concerns with the Company's GET Gas program proposals in this proceeding. First, UGI Gas proposed to add a ratepayer subsidy to the GET Gas program by redirecting a portion of interruptible service revenues. This would represent a fundamental change in the nature of the program, in that the original intent was for GET Gas revenues to hold existing ratepayers harmless to the expansion over the longer term. Second, the program has not been meeting its objectives in that market penetration has been slower than originally forecast. The risk of the Company's failure to meet its objectives lies primarily with ratepayers.

The *Joint Petition* substantially addresses the OSBA's concerns. First, as set forth above, the proposed mechanism for applying interruptible revenues as a cost offset to GET Gas is eliminated. *See Joint Petition*, at Paragraph 26. Moreover, the proposed GET Gas charges are considerably higher than those originally proposed, substantially reducing the subsidy required

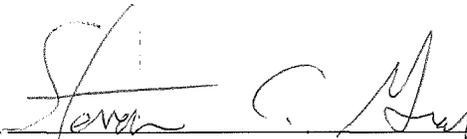
from ratepayers. The OSBA's internal calculations indicate that the proposed GET Gas revenues will recover more than 94 percent of the incremental costs associated with the GET Gas program, limiting the required contribution from existing ratepayers.

Second, while the OSBA retains its concern that the Company will fail to meet its objectives, the GET Gas program involves a relatively long-term market penetration period (heating systems have a long life and turn over only infrequently), and it is still relatively early in the process. For that reason, the OSBA determined that continuing the pilot was not unreasonable. While ratepayers retain the economic risk of the Company's failure to meet its objectives, the OSBA is confident that the Commission will consider the Company's actual performance in this pilot when evaluating whether the GET Gas program should continue, as well as management performance and allowed rates of return in future rate proceedings.

Conclusion

For the reasons set forth in the *Joint Petition*, as well as the additional factors that are enumerated in this statement, the OSBA supports the proposed *Joint Petition* and respectfully requests that the ALJ and the Commission approve the *Joint Petition* in its entirety.

Respectfully submitted,



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Harrisburg, PA 17101

Dated: July 22, 2019

APPENDIX “E”

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission, et al.	:	
	:	
v.	:	Docket No. R-2018-3006814
	:	
UGI Gas of Pennsylvania, Inc.	:	

**STATEMENT OF THE COALITION FOR AFFORDABLE UTILITY SERVICES
AND ENERGY EFFICIENCY IN PENNSYLVANIA (CAUSE-PA) IN SUPPORT OF
THE JOINT PETITION FOR SETTLEMENT OF ALL ISSUES**

The Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA), a signatory party to the Joint Petition for Settlement of All Issues (Joint Petition or Settlement), respectfully requests that the terms and conditions of the Settlement be approved by the Honorable Christopher P. Pell, Administrative Law Judge (ALJ), and the Pennsylvania Public Utility Commission (Commission). For the reasons stated more fully below, CAUSE-PA believes that the terms and conditions of the Settlement are in the public interest and should be approved.

I. INTRODUCTION

CAUSE-PA intervened in this proceeding to address, among other issues, whether the proposed rate increase would detrimentally impact the ability of UGI Gas of Pennsylvania, Inc.’s (UGI’s) low-income customers to access affordable natural gas service, based on reasonable terms and conditions. Through the course of the proceeding, and the testimony of its expert witness Mitchell Miller – former Director of the Bureau of Consumer Services – CAUSE-PA specifically addressed following issues: the financial harm of the rate increase on low income households; the impact of the proposed fixed residential customer charge on the ability to achieve meaningful bill

savings through conservation; critical policies and practices governing security deposits and identification requirements that impact the ability for vulnerable consumers to access and maintain service; the effect of UGI's rate filing and proposed rate increase on low income households enrolled in or eligible for UGI's Universal Service Programs, and the changes necessary to mitigate the impact on low income households; and the availability of Energy Efficiency and Conservation (EE&C) Programming to low income households through UGI's proposed Energy Efficiency and Conservation Plan. Each of these issues was addressed in the proposed Settlement.

With regard to the overall rate increase, the proposed Settlement will increase UGI's operating revenues by \$30 million, much lower than the proposed \$71.1 million. (Joint Pet. at 2). The proposed residential customer charge of \$14.60 is also much lower than UGI's initial proposal, which would have increased the fixed fee to \$19.00. (Joint Pet. at ¶ 25).

The Settlement also provides for several critical changes to UGI's universal service programs, including enhancements to the Customer Assistance Program (CAP) enrollment and recertification processes; periodic review of CAP rate plans; more flexible standards for income verification for winter protections; adjustments to its security deposit collection and retention policies; and increased in funding for the Low Income Usage Reduction Program (LIURP) and Emergency Furnace Repair Program. (Joint Pet. at ¶¶ 37-49). The terms also ensure that UGI's proposal to consolidate its universal service program budgets will not result in disproportionate access to assistance across UGI's three rate districts. Finally, the Settlement proposes a number of enhancements to UGI's proposed EE&C Plan to include specific low income program terms – as well as increased funding for UGI's LIURP. (Joint Pet. at ¶ 36, 40).

The Commission's regulations lend unambiguous support for settlements, and declare: "It is the policy of the Commission to encourage settlements."¹ The Commission has also set explicit policy guiding settlement of a major rate case, explaining in its codified statement of policy that "the results achieved from a negotiated settlement or stipulation, or both, in which the interested parties have had an opportunity to participate are often preferable to those achieved at the conclusion of a fully litigated proceeding."² Settlements are preferred because they "lessen the time and expense that Parties must expend litigating a case and, at the same time, conserve resources."³ In reviewing whether to approve a proposed settlement, the Commission must determine whether the terms and conditions are in the interest of the public based on a preponderance of the evidence "showing a likelihood or probability of public benefits that need not be quantified or guaranteed."⁴ Historically, the Commission has defined the public interest as inclusive of ratepayers, shareholders, and the regulated community at large.⁵ Of course, proposed settlement terms must also be consistent with applicable law.⁶

Although CAUSE-PA's positions in litigation were not fully adopted, the Settlement was arrived at through good faith negotiation by all parties. The Settlement is in the public interest in that it (1) addresses the ability of low income natural gas customers in UGI's service territory to access safe and affordable natural gas service, (2) balances the interests of the parties, and (3) fairly resolves a number of important issues raised by CAUSE-PA and other parties. If the Settlement is approved, the parties will also avoid considerable litigation and/or appeals costs.

¹ 52 Pa. Code § 5.231.

² 52 Pa. Code § 69.401.

³ See Commonwealth of Pa. et al. v. IDT Energy, Inc., Docket No. C-2014-2427657, at 35-37 (Tentative Order entered June 30, 2016).

⁴ See id. (quoting Popowsky v. Pa. PUC, 594 Pa. 583, 937 A.2d at 1040 (2007)).

⁵ See id. (citing Pa. PUC v. Bell Atlantic Pennsylvania, Inc., Docket No. R-00953409 (Order entered Sept. 29, 1995)).

⁶ See id. (citing Dauphin County Indus. Dev. Auth. v. Pa. PUC, 2015 Pa. Commw. LEXIS 381 (Sept. 9, 2015)).

II. BACKGROUND

For the purposes of this Statement in Support, CAUSE-PA adopts the procedural history as set forth in the attached Joint Petition. (Joint Pet. at ¶¶ 1-14).

III. SETTLEMENT

A. GENERAL

When determining whether a proposed rate increase is just and reasonable, special consideration must be given to the impact of the proposed rate increase and rate structure on the ability of vulnerable, low income consumers to afford natural gas service. It is both unjust and unreasonable to charge unaffordable rates which could force families to do without service that is essential to meet basic human needs. (CAUSE-PA St. 1 at 5-6, 8-12, 21). Low income households already struggle to afford necessities. (*Id.*) An increase to cost of natural gas service will only worsen the affordability gap for these customers.

The proposed Settlement takes rate affordability into account by using structural rate design to limit the disproportionate burdens on low income households and through the adoption of critical enhancements to UGI's universal service programs. The rate design and enhancements to universal service programming contained in the proposed Settlement will better match needy households with available assistance and ensure access to stable and affordable utility services over the long term. These terms, and the reasons each are in the public interest, are discussed further below.

B. REVENUE REQUIREMENT

CAUSE-PA did not take a position in this proceeding on the revenue requirement, or the components thereof, except to explain the detrimental impact of any increase in the Company's revenue requirement on low-income residential consumers generally. (See CAUSE-PA St. 1 at 7-

19). CAUSE-PA focused its case on the need to appropriately remediate any resultant increase in the Company's residential distribution rates through equitable rate design, appropriate terms and conditions of service, and the adoption of enhancements to available universal service programming.

C. REVENUE ALLOCATION/RATE DESIGN

Under the terms of the Settlement, the residential (fixed) customer charge will be set at \$14.60 for all three rate districts – which is consistent with the current fixed charge for UGI's Central rate district, and represents a moderate increase for UGI North (currently \$13.25) and UGI South (currently \$11.75). (See Joint Pet. at ¶ 25; CAUSE-PA St. 1 at 19). UGI initially proposed a customer charge of \$19.00, which would have amounted to a 43.4% increase for UGI North, a 30.1% increase for UGI Central, and a 61.7% increase for UGI South. (CAUSE-PA St. 1 at 19). CAUSE-PA's expert witness Mitchell Miller explained in his direct testimony that high fixed charges undermine the ability for consumers to control costs through energy efficiency, conservation, and consumption reduction efforts. (*Id.*) He further explained that this disproportionately affects low-income customers who rely on the ability to offset high bills through careful conservation and usage reduction, and that it undermines the explicit goal of LIURP to produce appreciable bill savings for low income consumers over the long term. (*Id.* at 19-20). Limiting the amount of the fixed charge increase will preserve the ability of low income households to meaningfully reduce their consumption to control their utility costs and, in turn, other universal service costs. (*Id.* at 22).

CAUSE-PA also supports UGI's proposal to include third party bill payment fees in the base rates. (Joint Pet. at ¶ 31). Mr. Miller explained that households with income below \$15,000 are significantly more likely to be unbanked or underbanked, and thus more likely to pay with cash or

use prepaid debit cards at third party payment centers. (CAUSE-PA St. 1 at 41). He argued that, given the month-to-month struggle of low income customers to meet basic expenses, the proposed change to eliminate these fees “would be a welcome financial relief and should be approved.” (Id.) Waiving these fees helps mitigate the impact of the rate increase on low income customers by helping reduce the price pressures on these vulnerable customers. As such, CAUSE-PA asserts that the proposal should be approved.

D. ENERGY EFFICIENCY AND CONSERVATION (EE&C) PLAN

As part of its initial rate filing, UGI proposed a five-year Energy Efficiency and Conservation (EE&C) Plan that would provide EE&C services to residential and non-residential consumers across its three rate districts. While UGI is not statutorily mandated to comply with the standards and requirements of Act 129 EE&C programming, UGI asserted through testimony that it nevertheless modeled its proposed plan on the requirements contained in the Act. (UGI St. 13 at 6-7). Mr. Miller agreed that, to be considered just, reasonable, and in the public interest, UGI’s plan should be modeled on the standards and guidelines set forth in Act 129. (Id. at 42). But as Mr. Miller explained in direct testimony, UGI’s initial proposal allocated only between 1.1 and 1.4% of UGI’s residential spending for dedicated low income programming⁷ – falling far short of meeting Act 129’s requirement that EE&C Plans include a “proportionate” level of measures for low income consumers. (CAUSE-PA St. 1 at 41-44). As Mr. Miller concluded, low income consumers would be required to pay, on average, between \$9.44 and \$13.74 annually to finance the EE&C Plan, but very few would derive a benefit from that programming. (Id. at 42-43).

⁷ UGI’s initial proposal included a \$100,000 LIURP set-aside, which was originally approved by the Commission as part of a negotiated settlement to address the lack of low income programming in UGI North’s current EE&C Plan. CAUSE-PA St. 1 at 44. As proposed, this \$100,000 set-aside for UGI North would have been diluted across all three of UGI’s rate districts – with just \$102,005 in LIURP set-aside budgeted to UGI North for the entire five years of UGI’s proposed plan. (Id. at 44, t.8).

To rectify this shortcoming, the proposed Settlement - which was carefully negotiated amongst the parties – includes two primary provisions. First, UGI agreed to waive the energy audit fee for low income consumers (up to 200% FPL) who participate in the EE&C Residential Retrofit program, subject to a spending cap of \$250,000. (Joint Pet. at ¶ 36). Those who receive an audit through the Residential Retrofit Program will also receive a number of direct-install measures, such as a programmable thermostat, low flow faucets and shower-heads, and other energy efficiency and conservation measures. (Id.) The proposed Settlement is careful to ensure that those who are eligible for LIURP will continue to be served through LIURP because LIURP offers more comprehensive programming to high usage consumers than the measures that will be installed through the Residential Retrofit audit program. (Id.)

In addition to waiving the energy audit fee, the proposed Settlement also includes a general increase of \$400,000 annually to UGI's overall LIURP budget to help ensure that more low income consumers have access to the comprehensive, deep energy efficiency and conservation measures provided to low income consumers through LIURP. While ultimately this provision to increase LIURP funding was included in the universal service section, below, it is important to recognize that the intent of this provision was in part to help address the lack of proportionate low income programming within UGI's proposed EE&C.

Together, these two provisions help ensure that low income consumers will derive a more proportionate level of energy efficiency and conservation programming, and ensures that existing EE&C benefits for low income consumers in UGI North service territory are not diminished. Ultimately, these provisions are in the public interest and should be approved.

E. UNIVERSAL SERVICE AND OTHER LOW INCOME ISSUES

Community Based Organizations (CBOs)

Under the terms of the Settlement, UGI commits to maintaining its existing business relationship with CBOs. (Joint Pet. at ¶ 37). This provision will help ensure continuity in the administration of UGI's low income programming, and will facilitate inter- and intra- coordination across various universal service and other related assistance programs. It will also help fulfill the explicit preference in the Public Utility Code for universal service programs to be administered by CBOs, which have established ties in low income communities. (66 Pa. C.S. § 2203(8)). As such, CAUSE-PA supports this provision, and asserts that it should be approved.

Consolidation of Universal Service Program Budgets

As part of its rate filing, UGI proposed to consolidate the budgets for its universal service programs across its three rate districts. (UGI St. 10 at 12). As Mr. Miller explained, this initial proposal lacked specificity, and was ultimately inadequate to ensure that that UGI's universal service programs – specifically its LIURP and Hardship Fund program – would be “equitably distributed” across its three rate districts. (CAUSE-PA St. 1 at 29-33). The proposed Settlement addresses this inadequacy by requiring UGI to maintain spending levels in each rate district which are consistent with the budgets proposed in UGI's pending triennial Universal Service and Energy Conservation Plan (USECP). (Joint Pet. at ¶ 38). CAUSE-PA therefore believes that this provision is in the public interest, and should be approved.

Low Income Usage Reduction Program (LIURP)

Mr. Miller explained that UGI's LIURP serves a critical role in providing accessible service to low income consumers, and is expressly designed to improve bill affordability and reduce arrearages and termination rates over the long term. (CAUSE-PA St. 1 at 36-37). He further

explained that, despite the value of LIURP and its impressive results, UGI's LIURP is insufficiently funded to fulfill the estimated need within a reasonable amount of time. (*Id.*) In addition to noting the general inadequacy of UGI's LIURP, Mr. Miller also explained that UGI's EE&C Plan lacked a proportionate level of program measures for low income consumers, which inequitably limited the ability of low income consumers to adopt comprehensive energy efficiency and conservation measures. Finally with respect to LIURP, Mr. Miller explained that UGI's Emergency Furnace Repair program – a component of its LIURP – lacks adequate funding to provide services across UGI's three rate districts. He noted that UGI's current Emergency Furnace Repair Program is limited to UGI North, and that UGI's proposal to consolidate rate districts would dilute the ability of UGI to serve the needs of low income consumers whose furnace is inoperable, inadequate, or otherwise unsafe. (CAUSE-PA St. 1 at 38-39). As Mr. Miller concluded, equitable funding across UGI's three rate districts is critical to protecting the health and safety of both the individuals in the household and the broader community, and has added benefits of bringing natural gas customers back onto the system. (CAUSE-PA St. 1 at 39).

Under the terms of the proposed Settlement, and as mentioned above with regard to UGI's proposed EE&C Plan, UGI will increase its annual LIURP budget by \$400,000 over the proposed budget in UGI's currently pending triennial Universal Service and Energy Conservation Plan (USECP). (Joint Pet. at ¶ 40). This budget increase serves a dual purpose. First, the general budget increase will help ensure that LIURP services are available to a greater number of low income consumers who need assistance to control their heating costs. This will, in turn, help offset the impact of the rate increase on those most impacted by the increase in the cost of basic services. The proposed LIURP funding increase will also help ensure that low income households across UGI's service territory will have access to a more proportional level of energy efficiency and

conservation services. As discussed above, UGI's proposed EE&C lacked adequate direct benefits for low income consumers. (See CAUSE-PA St. 1 at 43-48). The proposed increase in LIURP funding will help remedy this inadequacy, and will ensure that UGI's low income consumers will have improved access to comprehensive conservation measures – which will in turn help to decrease usage and control the monthly cost of energy over the long term.

The proposed Settlement also includes an additional \$100,000 annual budget increase for UGI's Emergency Furnace Repair Program. (Joint Pet. at ¶ 41). This provision will help to ensure that furnace repair services are made available to all of UGI's low income customers, regardless of their rate district. By helping to reduce reliance on inadequate, unsafe, and inoperable natural gas furnaces, this provision of the Settlement will help protect the health and safety of individual consumers and their families – as well as the community as a whole – and will help reduce reliance on expensive, inefficient, and otherwise unsafe supplemental heating sources such as plug-in electric space heaters, propane or kerosene generators, and/or the use of ovens for space-heating purposes. (See CAUSE-PA St. 1 at 38-39).

Finally, the proposed Settlement ensures that at the end of a program year, UGI's unspent LIURP program dollars – as well as any unspent Hardship Fund program dollars – will roll over and be added to the budget for the following year. (Joint Pet. at ¶ 39). This provision is consistent with UGI's current practice for UGI North and UGI South, where unspent funds for LIURP roll over from year to year; however, it represents a significant change for UGI Central. As Mr. Miller explained, UGI has consistently underspent its LIURP budget for UGI Central – despite clear and demonstrated need for usage reduction services. (CAUSE-PA St. 1 at 37-38). This provision of the proposed Settlement will help ensure that UGI more consistently spends its program dollars year over year, to the benefit of low income consumers seeking assistance through the program.

Income Verification for Cold Weather Protections

As Mr. Miller explained in his direct testimony, UGI's low income customers also have a markedly higher rate of involuntary, payment-based termination compared to average residential customers. (CAUSE-PA St. 1 at 14). He further explained that when low income customers lose their primary heating source they often resort to dangerous heating methods. (*Id.* at fn. 23). Under the terms of this Settlement, UGI agrees to amend its tariff language on cold weather protection to adopt the language from the Columbia Gas of Pennsylvania tariff, which will ensure that all consumers for whom the utility has financial information within the past year to show they are at or below 250% FPL will be protected from winter termination. (Joint Pet. at ¶ 43). This provision helps to reduce barriers for low income consumers who are in critical need of winter termination protections, and will in turn help lower the number of winter terminations and reduce the danger and added expense associated with reliance on supplemental heating sources.

Identification Requirements

In his direct testimony, Mr. Miller expressed concern about UGI's identification and security deposit requirements. (CAUSE-PA St. 1 at 22-26). He explained that UGI's identification policy indicates that it only accepts identification cards issued by Federal, State, or Local Government – and does not explicitly include identification issued by a foreign government to prove a consumer's identity. (*Id.* at 23). He voiced concern that UGI's identification requirements could create a barrier for foreign-born individuals seeking residential service and indicated that UGI had previously agreed to address this issue but it had not been adequately resolved. (*Id.* at 24). As part of the proposed Settlement, UGI agrees to modify its tariff to explicitly identify that any current form of government-issued identification, *including identification issued by a foreign government*, will be accepted to establish service. (Joint Pet. at ¶ 44). This change will help ensure

that the ability of foreign-born consumers to connect to natural gas service is not unduly hindered by UGI's identification requirements.

Security Deposits

Mr. Miller explained that UGI's tariff makes no mention of the security deposit prohibition for low income customers, or the process and procedure for consumers to submit income information for review. (CAUSE-PA St. 1 at 25). He pointed out that UGI had previously agreed to change its internal policy requiring low income consumers to enroll in CAP as a condition for the security deposit to be waived, but - as with UGI's identification requirements discussed above - the previously agreed-to changes were not appropriately implemented. (Id. at 25-26).

Under the terms of the proposed Settlement, UGI agrees to revise its letter, call scripts, training materials, and other written policies and procedures to clarify that enrollment in CAP is not a requirement to obtain a security deposit waiver, and to clarify the steps that the customer must take to obtain a security deposit waiver. (Joint Pet. at ¶ 45). Further, UGI committed to reviewing its revised materials at its annual Universal Service Program Collaborative Meeting, and will solicit feedback and recommendations for further revisions from participants at the meeting. (Joint Pet. at ¶ 45). Moreover, to help ensure that UGI is not improperly holding security deposits after it learns of a customer's low income status, UGI agreed to review all currently held security deposits on a monthly basis, and will release any deposit previously collected from a confirmed low income customer. (Joint Pet. at ¶ 46). UGI will continue this monthly review process until programming for a more permanent fix to its billing system is complete and operationalized. (Joint Pet. at ¶ 46). These steps will help ensure that low income consumers are adequately apprised of their rights, and will instill appropriate safeguards to ensure that security deposits collected from low income consumers are released and returned in a prompt manner.

Quarterly CAP Rate Plan Review

In his direct testimony, Mr. Miller noted that UGI's Customer Assistance Program (CAP) offers three primary rate plans: a percentage of income bill; an average bill; and a minimum bill. (CAUSE-PA St. 1 at 15). UGI's asserts that CAP customers are provided the lowest available CAP rate plan. (CAUSE-PA St. 1 at 16). However, as Mr. Miller pointed out, UGI does not have an adequate system to review CAP participants' payment plans to determine whether a more beneficial rate is available. (CAUSE-PA St. 1 at 34). As Mr. Miller explained, UGI's proposed rate increase, as well as other intervening events such as increases in the cost of gas or a significant change in usage, can cause the average bill CAP rate to increase throughout the year – possibly exceeding the applicable percentage of income bill rate. (CAUSE-PA St. at 16). However, pursuant to UGI's current policy, CAP rates are only assessed and adjusted upon annual or triennial recertification or in response to an affirmative request by the CAP customer due to a change in the CAP customers' income. (CAUSE-PA St. 1 at 16, 34). This system, Mr. Miller explained, unfairly places the onus on the CAP customer to understand the complicated bill calculations each month, find the time to contact UGI, and submit income verifications outside of the recertification window in order to obtain a rate assessment. (CAUSE-PA St. 1 at 35). He argued that customers should not be expected to monitor UGI's prices with such veracity or to know that they may request a reduction in their CAP payment as a result of an approved rate increase, especially when changes in applicable rates are attributed to factors – such as a change in rates – which are outside of the consumer's control. (Id.)

In the proposed Settlement, UGI agrees to review CAP rates for those enrolled in the average bill or percentage of income CAP rate plans on a quarterly basis to determine whether a more affordable rate plan is available, and will automatically adjust the applicable CAP rate to the

lowest available rate at the time of review. (Joint Pet. at ¶ 47). Approval of this provision will help ensure that CAP customers are receiving the most affordable bill for which they qualify, without requiring unnecessarily burdensome procedures for low income consumers to affirmatively request a rate assessment or submit more frequent income verification. While not absolute, as rates will still inevitably increase for the majority of low income CAP customers, this provision will help to lessen the overall impact of the rate increase on economically vulnerable low income consumers. (CAUSE-PA St. 1 at 35). It is noteworthy that this periodic review process is consistent with other utilities that have similar CAP rate structures, including Peoples Natural Gas and Columbia Gas of Pennsylvania. (CAUSE-PA St. 1 at 35). As such, CAUSE-PA asserts that this provision is squarely in the public interest, and should be approved.

F. TRANSPORTATION

CAUSE-PA did not take a formal position in this proceeding on Transportation issues.

G. ACCOUNTING

CAUSE-PA did not take a formal position in this proceeding on Accounting issues.

H. SAFETY

CAUSE-PA did not take a formal position in this proceeding on Safety issues.

I. OTHER ISSUES

CAUSE-PA did not take a formal position in this proceeding on the issues addressed under the Other Issues section of the Joint Petition.

IV. THE SETTLEMENT IS IN THE PUBLIC INTEREST

Over one-quarter of UGI's residential customers are low income and already struggle to pay for basic life necessities. (CAUSE-PA St. 1 at 5). As Mr. Miller explained in testimony, low income households are particularly vulnerable to rate increases because they lack budget elasticity and already struggle to afford many life essentials. (Id. at 11-15). "While some help is available to assist vulnerable households, current universal service program structure and funding are insufficient to lessen the affordability gap for the majority of UGI's low income customers." (Id. at 5). Ultimately, in light of the proposed rate increase, CAUSE-PA asserted throughout this proceeding that UGI must do more to improve rate relief for low income households. (Id.)

The Settlement takes rate affordability into account by limiting the impact of the rate increase on low income households through common-sense enhancements to available low income programs and by limiting increases to the fixed customer charge. While rates will ultimately still increase for residential consumers, including many CAP customers, CAUSE-PA asserts that the enhancements contained in the Settlement will help vulnerable low income consumers to access available assistance programs, and will help those already enrolled in a program to more reasonably absorb the financial impact of the rate increase. Thus, CAUSE-PA asserts that the terms of the proposed Settlement will help ensure low income customers are better able to access and maintain stable and affordable utility services over the long term and is therefore in the public interest.

IV. CONCLUSION

CAUSE-PA submits that the Settlement, which was achieved by the Joint Petitioners after an extensive investigation of UGI's filing and negotiations amongst the parties, is in the public interest. Acceptance of the Settlement avoids the necessity of further administrative and possible appellate proceedings regarding the settled issues – which would have been undertaken at a substantial cost to the Joint Petitioners and UGI's customers. Accordingly, CAUSE-PA respectfully requests that ALJ Pell and the Commission approve the Settlement without modification.

Respectfully Submitted,

PENNSYLVANIA UTILITY LAW PROJECT
On Behalf of CAUSE-PA



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Date: July 19, 2019

APPENDIX “F”

B. In the Settlement the Company reiterates its intent to continue to use community-based organizations to assist in the implementation of its universal service programs;

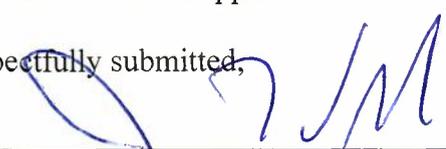
C. The Company proposed in its initial filing to increase its fixed monthly residential customer charge from \$19.00. Such an increase in the fixed charge would have lessened the motive and ability of the residential class to conserve energy and reduce their monthly bill. The Settlement lessens such a negative impact in that it provides that the fixed monthly residential customer charge will set at \$14.60;

D. In settlement the Company has agreed to add a low-income component to its EE&C Plan that would specifically benefits its low-income customers.

E. This settlement is consistent with the Commission's obligation under the Natural Gas Choice and Competition Act to insure that universal service programs are appropriately funded and available, that energy conservation measures are promoted and available to consumers, particularly low income consumers, and that community-based organizations are used to assist in the implementation of a gas company's universal service programs.

WHEREFORE, CEO respectfully requests that the settlement be approved.

Respectfully submitted,



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Opportunity

APPENDIX “G”

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2018-3006814
Office of Consumer Advocate	:	C-2019-3007753
Office of Small Business Advocate	:	C-2019-3007756
Keith P. Dolon	:	C-2019-3007953
Gail L. Hoffer & Bernadette Margel	:	C-2019-3008002
James J. Knowlton	:	C-2019-3008606
Christopher Visco	:	C-2019-3008737
Ruth E. Neely	:	C-2019-3008833
Sam Galdieri	:	C-2019-3009325
Billie Sue Atkinson	:	C-2019-3009949
	:	
v.	:	
	:	
UGI Utilities, Inc. – Gas Division	:	

**STATEMENT OF DIRECT ENERGY IN SUPPORT OF THE
JOINT PETITION FOR APPROVAL OF SETTLEMENT**

Direct Energy Business, LLC, Direct Energy Services, LLC, and Direct Energy Business Marketing, LLC (collectively, “Direct Energy”) submit this Statement in Support of the Joint Petition for Approval of Settlement of All Issues (“Joint Petition” or “Settlement”). Direct Energy submits that the Settlement is in the public interest, in the interest of Natural Gas Suppliers (“NGSs”) operating in the service territory of UGI Utilities, Inc. (“UGI” or the “Company”), and in the interest of the Company’s ratepayers. As such, Direct Energy respectfully requests that Deputy Chief Administrative Law Judge Christopher P. Pell (“ALJ Pell”) and the Pennsylvania Public Utility Commission (“Commission”) approve the Settlement without modification.

I. PROCEDURAL HISTORY

On January 28, 2019, UGI filed proposed Tariff Gas PA PUC Nos. 7 and 7S and served Direct Testimony supporting its filing. In its filing, UGI proposed to increase rates by approximately \$71.1 million per year, unify base rates and PGC rates, and implement various other riders and rules, including modifications to its transportation rules.

On January 31, 2019, the Commission's Bureau of Investigation and Enforcement (I&E) entered a Notice of Appearance. On February 7, 2019, the Office of Consumer Advocate (OCA) filed a Public Statement, a Notice of Appearance, and a Formal Complaint. Also on February 7, 2019, the Office of Small Business Advocate (OSBA) filed a Verification, a Public Statement, a Notice of Appearance, and a Formal Complaint. On February 14, 2019, the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA) and the Commission on Economic Opportunity (CEO) filed Petitions to Intervene in this proceeding. On February 21, 2019, the Natural Gas Supplier Parties (NGS) and the Retail Energy Supply Association (RESA) (collectively, "NGS/RESA") filed a joint Petition to Intervene in this proceeding. On February 28, 2019, Direct Energy filed a Petition to Intervene in this proceeding. On March 7, 2019, the Laborers' District Council of Eastern Pennsylvania ("LDCEPA") filed a Petition to Intervene, and on March 15, 2019, UGI Energy Services, LLC ("UGIES") filed a Petition to Intervene. Several consumer complainants also filed Formal Complaints in this proceeding.

By Order dated February 28, 2019, the Company's filing was suspended by operation of law until October 29, 2019, unless permitted by Commission Order to become effective at an earlier date. The Commission assigned this matter to the Office of Administrative Law Judge.

Also on February 28, 2019, ALJ Pell issued a Prehearing Order, scheduling a telephonic Prehearing Conference for Wednesday, March 13, 2019, at which time a litigation schedule was established.

Pursuant to the litigation schedule, on April 30, 2019, I&E, OCA, OSBA, CAUSE-PA, CEO, NGS/RESA, Direct Energy, and LDCEPA served Direct Testimony. On May 30, 2019, UGI, OCA, OSBA, and Direct Energy served Rebuttal Testimony. On June 13, 2019, the following parties served Surrebuttal Testimony: I&E, OCA, OSBA, CAUSE-PA, NGS/RESA, and Direct Energy. On June 18, 2019, UGI served Rejoinder Testimony.

The parties engaged in extensive settlement discussions. As a result, the parties were able to resolve all issues and reach a settlement in principle prior to the evidentiary hearing scheduled for this proceeding. An evidentiary hearing was held on June 20, 2019, at which time the parties moved their respective testimonies and exhibits into the record.

Direct Energy submits this Statement in Support of the Joint Petition for Approval of Settlement of All Issues.

II. SETTLEMENT

In this proceeding, Direct Energy filed the Direct, Rebuttal, and Surrebuttal testimonies of Mr. Orlando Magnani (Direct Energy St. 1, 1-R, and 1-SR, respectively). Importantly, in his testimony, Mr. Magnani expressed his concern with UGI's "non-choice" transportation rules proposal related to "Acceptable Substitutes." Specifically, Mr. Magnani testified that the Company's proposal to allow deliveries using the Sunbury and Mt. Bethel Pipelines to be used to fulfill required interstate pipeline deliveries in the Company's Southeast region provides a huge competitive advantage to UGI's affiliate, UGIES. Mr. Magnani explained that UGIES is the only

entity with capacity on the Sunbury¹ and Mt. Bethel Pipelines that could take advantage of the Company's proposal. This proposal would allow UGIES to obtain low cost Marcellus supply to meet delivery requirements in the Southeast region for approximately \$1.00-\$2.00 less than gas available to other suppliers seeking to meet the same delivery requirements. As a result, Mr. Magnani testified that this proposal could result in the elimination of competition in the Company's Southeast region. Mr. Magnani explained that this proposal is also inconsistent with Section 62.142(a)(1) – (2) of the Commission's regulations, 52 Pa. Code §§ 62.142(a)(1) – (2), which prohibits a Natural Gas Distribution Company ("NGDC") from applying its tariff in a manner that gives an affiliate preference over other NGSSs. Direct Energy St. 1 at 4-11. Further, Mr. Magnani explained that this proposal will not result in a benefit to UGI's customers, as customers benefit from a competitive market, where they have a variety of supply options available from a variety of suppliers. See Direct Energy St. 1-SR at 6.

In his Testimony, Mr. Magnani provided a number of recommendations for revising UGI's Sunbury and Mt. Bethel Acceptable Substitutes proposal in a manner that would provide NGSSs with more delivery options, benefit UGI's customers, and not result in an unfair competitive advantage to UGI's affiliate. Of note, Mr. Magnani recommended that UGI could merge its proposed Southeast and Southwest regions into one pool, thereby resulting in delivery options east and west of Dauphin and York being available to all suppliers, regardless of customer location. Direct Energy St. 1-SR at 10- 13.

Additionally, Mr. Magnani provided testimony related to UGI's delivered supply service. Mr. Magnani testified that he's concerned with increasing delivery supplies to the choice program

¹ It should be clarified that Hummel Station is an electric generation plant that also has capacity on the Sunbury Pipeline. UGIES, however, is the only entity with capacity on the Sunbury Pipeline that would seek to use said capacity to fulfill required interstate pipeline deliveries in UGI's Southeast region.

and Direct Energy's limited access to that supply under UGI's current tariff provisions. Mr. Magnani explained that under UGI's current tariff, Direct Energy pays a demand charge for all delivered supply, regardless of whether Direct Energy takes it. Mr. Magnani testified that Direct Energy is limited to its actual demand, and if the delivered supply exceeds that limit, Direct Energy gets cashed out. Direct Energy is unable to transfer length from the choice pools to other pools. As such, Mr. Magnani recommended that UGI revise its Supplier Tariff to provide that for any delivery less than peak demand to which Choice Suppliers are paying demand charges, Choice Suppliers shall have the ability to deliver to non-choice customers. Direct Energy St. 1 at 12.

Additionally, in Mr. Magnani's Rebuttal Testimony, Mr. Magnani agreed with several concerns raised by NGS/RESA witness Ms. Laura Greeholt-Tasto. Of note, Mr. Magnani provided testimony regarding his shared concern of UGI's practice of not releasing any physical storage to suppliers and the competitive disadvantage that results from said practice. Regarding UGI's cash-out practices, Mr. Magnani also agreed with Ms. Greenholt-Tasto that UGI should be required to only cash out the portion of the supplier's cash-out balance that is outside the tolerance band. Additionally, regarding UGI's nomination process, Mr. Magnani supported the recommendations that bundled storage and delivered supply nominations be due by 2:00 p.m. and for UGI to use a single DUNs number for its three nomination services. Direct Energy St. 1 at 2-4.

As explained below, the Settlement contains numerous provisions addressing the concerns raised by Direct Energy, as well as several other provisions that will benefit NGSs and, in turn, provide a public benefit.

A. Delivered Supply Service

The Settlement provides that, effective November 1, 2020, the Company will make necessary tariff changes to allow deliveries of delivered supply service available to NGSs under

the choice program to be used to meet its non-choice delivery requirements to the extent the delivered supply capacity is not needed to serve the NGS's choice load. Joint Petition at ¶ 51. This Settlement provision is consistent with Mr. Magnani's recommendation regarding UGI's delivered supply service. As Mr. Magnani explained, approval of this Settlement provision will allow Choice Suppliers, who are required to pay demand charges for all delivered supply, the ability to deliver excess supply to non-choice customers. Such a practice is efficient, will prevent NGSs from having to pay demand charges on supply that they do not take, and will reduce costs for UGI's customers. For these reasons, the Settlement is in the public interest and in the interest of NGSs operating in the Company's service territory.

B. Acceptable Substitutes Delivery Points and Merger of Southeast and Southwest Regions

The Settlement also provides that the Company will delay implementation of the Sunbury and Mt. Bethel Acceptable Substitutes proposal until November 1, 2023, provided that in the interim those points may be used for existing purchased gas cost obligations and choice related peaking and delivered services. Also, the Company is required to provide written notice on its Gas Management Website of any proposed, new interconnection points within thirty days of the execution of an Interconnection Agreement where the interconnecting entity elects to have the Interconnection Point included as an Acceptable Substitute Delivery Point. Joint Petition at ¶ 55. Additionally, the Company has agreed to merge its Southeast and Southwest regions. Joint Petition at ¶ 60.

These Settlement provisions provide a reasonable compromise to the Company's Sunbury and Mt. Bethel Acceptable Substitutes proposals and the recommendations of Mr. Magnani. The delayed implementation of the proposal will provide an opportunity for the establishment of other interconnection points which may provide NGSs with the opportunity to bid on capacity that would

enable them to obtain low cost Marcellus supply to meet delivery requirements in the Company's proposed Southeast region. Further, the Settlement ensures that NGSs will receive timely notice of any proposed interconnection points that may be used as Acceptable Substitute Delivery Points. If, prior to the implementation of the Sunbury and Mt. Bethel Acceptable Substitutes proposals, NGSs are provided with the opportunity to obtain supply on interconnect(s) that would give them the same advantages afforded to UGIES under the Sunbury and Mt. Bethel proposals, then the concerns raised by Mr. Magnani may be avoided. Specifically, the availability of capacity on future interconnects that can be used to meet delivery requirements in the Company's Southeast region could provide NGSs with more delivery options, benefit UGI's customers, and not result in an unfair competitive advantage to UGI's affiliate. Additionally, the Company's proposal to merge its Southeast and Southwest regions helps to ensure that *some* level of competition may continue in the Company's Southeast region, although the Company's new delivery requirements enable only up to 8% of Texas Eastern supplies to be delivered to meters west of Dauphin and York.

C. Non-Choice Excess Imbalances/Monthly Cash-Out Volumes

The Settlement provides that, for the post-transition period, the Company will specify a cash-out methodology that cashes out only the increment that is greater than 5% (rather than cash out the entire balance as is the current practice) once the 10% threshold is exceeded. Joint Petition at ¶ 57. This Settlement provision provides a reasonable resolution to the positions advanced by UGI (cashing out the entire balance) and those of Direct Energy and NGS/RESA (cashing out only the portion of the balance that is outside the tolerance band). It also helps to alleviate the concerns raised by Direct Energy and NGS/RESA that cashing-out the entire balance is punitive, grossly unfair to suppliers, and inconsistent with the practices of other Pennsylvania utilities. For these

reasons, the Settlement is in the public interest and in the interest of NGSs operating in UGI's service territory.

D. Supply Nomination Process

The Settlement provides that the deadline for bundled supply under the choice program shall be extended until 2:00 p.m. The Settlement further requires the Company to institute a common DUNS number for the purpose of making customer and delivery nominations under the choice transportation program. Further, effective November 1, 2020, the Company will institute a common DUNS number for the purpose of making customer and delivery nominations under the non-choice transportation program. Joint Petition at ¶ 58. These Settlement provisions are consistent with the recommendations of Ms. Greenholt-Tasto, which were also supported by Mr. Magnani. These provisions are beneficial in ensuring that NGSs receive information related to supply nominations in a timely manner, lessening the likelihood of mistakes, and making the nomination process more efficient. In this regard, the Settlement is in the public interest.

E. Eligible Customer Delivery List & Producer List

Pursuant to the terms of the Settlement, the Company has agreed to modify its Eligible Customer List to provide associated customer delivery region designations and to release to suppliers a full list of producers directly connected to the UGI Gas system. Joint Petition at ¶¶ 61-62. These provisions will help to ensure that suppliers have the necessary information required to meet delivery requirements in the Company's service territory in an efficient and effective manner.

F. Access to Storage

The Company has agreed to analyze the capability of providing a virtual storage proposal ("VSP") to NGSs who provide choice natural gas supply service on UGI's distribution system that will allow suppliers to manage injections and withdrawals of supply through nominations made to

the Company. The VSP analysis shall be completed no later than March 1, 2020, and the Company will subsequently hold a collaborative meeting for stakeholder input. Pending the outcome of the stakeholder process, the Company may make a VSP filing with the Commission no later than October 1, 2020. If the Company does not make a VSP filing, the parties reserve their rights to litigate this issue in the future. Joint Petition at ¶ 63.

These Settlement provisions enable the Company to explore possible solutions to the concerns expressed by Mr. Magnani and Ms. Greenholt-Tasto related to the Company's practice of providing virtual storage to suppliers. As noted by Direct Energy and NGS/RESA, the Company's current practice does not provide suppliers with the same advantages of physical storage and provides a disadvantage to Choice Transportation customers who will be unable to take advantage of lower prices that are available with supplier access to physical storage. As such, these Settlement provisions, which allow the Company to explore mechanisms to address supplier concerns, is in the public interest and the interest of UGI's ratepayers.

III. CONCLUSION

For the foregoing reasons, Direct Energy submits that the Joint Petition provides a reasonable resolution to the Company's filing and is in the public interest. Direct Energy respectfully requests that the Joint Petition be approved without modification.

Respectfully submitted,



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APPENDIX ‘H’

1. On or about January 28, 2019, UGI Utilities Inc., Gas Division (“UGI”) filed Tariff Gas – PA PUC Nos. 7 and 7S, with an effective date of March 29, 2019. The revised tariffs sought to increase UGI’s base rates by approximately \$71.1 million, and at the same time to consolidate the rates and tariff rules for what were previously three separately operating natural gas distribution companies.

2. On February 21, 2019, NGS/RESA filed a Petition to Intervene in the above captioned matter. On March 13, 2019, a prehearing conference was held. At the prehearing conference, the Presiding Administrative Law Judge (“ALJ”) granted NGS/RESA’s petition to intervene, and established a procedural schedule, among other actions.

3. Throughout the course of the proceeding, NGS/RESA conducted discovery, submitted the Direct and Surrebuttal Testimony of Laura Greenholt-Tasto, and participated in ongoing and extensive settlement discussions. Those discussions proved to be fruitful and a complete settlement of all issues and all parties has been achieved.

4. The Settlement addresses numerous subjects, but a scant few are of interest to NGS/RESA -- those in **Section F., Transportation**. The issues addressed include:

- a. Changes to the requirements for delivered supply in ¶ 51 to allow delivered supply for choice to be used for non-choice customers when not needed for choice customers.
- b. A unification of the daily balancing tolerance at 4.5% in ¶ 52.
- c. An adjustment of the NNS Rate to make clear that service elections in excess of 4.5% are considered interruptible and a unified rate, ¶ 53.
- d. An adjustment to rate MBS that ultimately will have that rate adjusted based on experience and submitted in UGI’s PGC compliance filing, ¶ 54.

- e. A proposal to allow certain pipeline interconnections to be considered acceptable substitute delivery points so that deliveries over these pipelines are able to take the place of deliveries from the regularly mandated pipelines for which suppliers receive capacity release. ¶ 55. This provision would delay the implementation of that authorization for two UGI affiliated pipelines and would require UGI to provide notice to suppliers in advance of any such interconnections in the future.
- f. An increase in the capacity charges for rates DS and LFD to reflect the OCA's assertion that even though those customers do not have the ability to use peaking services, that they somehow benefit from those services and that the charges for peaking service should be included in their weighted average cost of demand ("WACOD") charges. ¶ 56. However, to reflect the system benefits of the peaking capacity for which they are being charged, the DS/LFD customers/suppliers will receive an Economic Benefit of Peaking Service credit which will be reflected on their bills (on a two-month lagging basis). This entire mechanism is proposed on a pilot basis subject to any party's right to challenge it before it is permanently adopted.
- g. UGI will implement a new methodology of calculating the cash-out price and will, after the transition period, cease cashing out a supplier's entire balance if a supplier exceeds the 10% threshold balance and will instead only cash out the increment greater than 5%. ¶ 57.
- h. UGI also has agreed to adjust the nominations deadlines for suppliers and to consolidate DUNN's numbers which are used for pipeline nominations to eliminate confusion and reduce nomination errors. ¶ 58.

- i. UGI's proposed expansion of daily metering will be implemented, ¶ 59.
- j. UGI will merge the Southeast and Southwest regions to provide more flexibility in moving deliveries into the system, ¶ 60.
- k. UGI will provide the delivery region of each non-choice supplier to make it easier for suppliers to accurately price for these customers by better understanding the delivery requirements. ¶ 61.
- l. UGI will provide a complete list of producers that are physically connected to its system to suppliers on the system to facilitate contact and expand opportunities for the use of locally produced gas. ¶ 62.
- m. UGI has committed to studying the issue of storage access for suppliers and in particular the development of a virtual storage program that would allow suppliers to manage injections and withdrawals of gas into storage -- something not available to suppliers on the UGI system today. While there is no commitment to implement a program, a UGI study of what is possible is the first step down that road. ¶ 63.

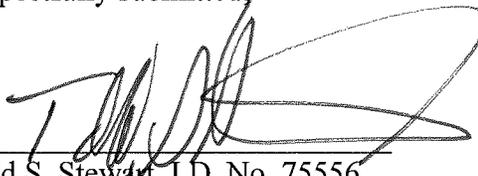
5. While it is true that a number of these provisions will increase costs to suppliers depending on a customer's location, because rates have been unified, it also is true that in exchange the suppliers will get increased flexibility, less onerous cash out requirements, and in some cases, reduced costs. The benefits to customers are numerous as well and include for non-choice customers the opportunity for more accurate metering which allows customers to lower costs by have exact delivery targets (¶59), less onerous cash out provisions (¶57) and the expanded ability to rely on No Notice Service (NNS) above the 4.5% threshold, albeit on an interruptible basis. (¶53). Supplier operations will be benefited by consolidated delivery rules and tariffs and the opportunity, however remote, of having virtual access to storage. (¶ 63).

6. When suppliers are able to operate more efficiently, and in the best interests of their customers, everyone benefits. Customers receive better service at more competitive rates, suppliers are able to retain customers and provide more favorable offers and the utility benefits, merely in better image but also by having a happier customer who is less likely to burden it with complaints.

7. One provision in particular is extremely important to the supplier parties – the access to storage provision (§63) as it has the potential to provide suppliers with the ability to nominate injections to and withdrawals from storage on the UGI system, something they have long desired. While UGI has no obligation to implement a virtual storage program, the fact that it will have to be studied and rationales must be provided means we are one step closer to the goal of optimizing storage for customers. The ability for suppliers to manage the storage assets their customers already pay for, which is what the utility does today, will allow them to buy gas when it is less expensive and inject it into storage for use when it is more scarce and thus more expensive. This would allow suppliers to price offers more competitively with default service and provide real value to customers. Currently, UGI provides an index priced bundled sales product in lieu of actual storage, but this is an ineffective substitute and provides little ability for any price separation from default service. This is a major concession for UGI that has long resisted any movement toward allowing suppliers to have any access however minute to storage.

8. For all the forgoing reasons, NGS/RESA respectfully submit that the Settlement is in the public interest and provides a reasonable framework for combining the rates of three utilities into one. NGS/RESA request that the Commission approve the settlement without modification.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'T. Stewart', written over a horizontal line.

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