BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF UGI UTILITIES, INC. – ELECTRIC DIVISION
FOR APPROVAL OF ITS
ENERGY EFFICIENCY AND CONSERVATION PLAN

DOCKET NO. M-2010-____________

TESTIMONY
OF
WILLIAM J. MCALLISTER

UGI ELECTRIC STATEMENT NO. 3

November 9, 2010

Q. Please state your name, title and business address.

A. My name is William J. McAllister, and I am employed by UGI Utilities, Inc. as a Senior Rate Analyst. My business address is UGI Utilities, Inc., 2525 12th Street, Suite 360, Reading, Pennsylvania 19612.

Q. What are your responsibilities as a Senior Rate Analyst?

A. Since 1985, I have been significantly involved in the preparation of UGI Utilities, Inc. – Gas Division's ("UGI Gas'") Purchased Gas Costs ("PGC") tariff filings and related PGC computations. More recently, I prepared UGI Gas' interim and quarterly PGC rate changes. Additionally, I developed UGI Gas' Section 1307(a) filings to recover Take-or-Pay costs, Transition costs, and Education costs. Most recently, I have also developed the Low Income Self Help Program ("LISHP") Rider for UGI Gas and UGI Utilities, Inc. – Electric Division ("UGI Electric" or "Company"), which initially became effective December 2, 2005, and the ensuing LISHP Rider adjustments that have gone into effect ever since.

Q. Please describe your educational background and work experience.

A. I graduated from Villanova University with a Bachelor of Science Degree in Mathematics. I have received certification in the Principles of Public Utility Operation and Management from Public Utilities Report, Inc. I have taken graduate-level courses at the Pennsylvania State University. I have also completed numerous industry-related training programs and seminars, including the AGA Rate Course and the AGA Advanced Rate Course.

Upon graduation in 1974, I was employed as a Statistical Analyst with UGI Gas. This position involved: (1) various assignments relating to rate design and competitive analysis; (2) preparing related rate filings such as the monthly Fuel Cost Adjustment and the State Tax Surcharge; and (3) assisting in the preparation of base rate filings. In 1976, I was promoted to Rate Analyst. In 1980, I was promoted to my current position of Senior Rate Analyst. I have represented UGI Gas on the Pennsylvania Gas Association ("PGA") Regulatory Matters Committee. Additionally, I was the Chairman of the PGA Rate Information Task Force. The PGA was subsequently replaced by the Energy Association of Pennsylvania.

Q. Have you previously testified as a witness before the Pennsylvania Public Utility Commission ("Commission")?

A. Yes. I have testified and/or presented testimony in each of UGI Gas' PGC proceedings since 1988, in this year's PGC proceedings for both PNG and CPG, in UGI Gas' 1307(a) proceedings at Docket Nos. R-00943259 and R-00943063, and in our Customer Choice proceeding at Docket No. R-00994786. I also presented Direct Testimony in UGI Gas' Purchase of Receivables Program/Merchant Function Charge, which was approved by the Commission in August 2010.

Q. What is the subject matter of your testimony in this proceeding?

A. I will describe how UGI Electric is proposing to recover the costs for developing and implementing its three-year Energy Efficiency and Conservation Plan ("EE&C Plan" or "Plan"), which is being proposed to become effective November 1, 2011 and last through October 31, 2014. I also will explain UGI Electric's proposal to maintain revenue stability as a result of customers taking advantage of the various EE&C Plan programs and measures.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes. I am sponsoring Exhibits WJM-1, WJM-2, WJM-3 and WJM-4. In addition, I am sponsoring Section 6 and Appendix A of the EE&C Plan.

Q. What rate mechanisms is UGI Electric proposing in connection its EE&C Plan?

A: UGI Electric proposes to utilize separate rate mechanisms to recover the budgeted costs for development and implementation of the Plan and for the recovery of lost revenues as discussed more fully in my testimony below. Plan cost recovery will be accomplished utilizing the Energy Efficiency and Conservation Rider ("EEC Rider"). Lost revenues will be recovered under the proposed Conservation Development Rider ("CD Rider").

With respect to the CD Rider, UGI Electric recognizes that Act 129 contemplates recovery of lost revenues in the context of a larger EDC's base rate case. As a voluntary filer and smaller EDC, however, UGI Electric should be able to maintain revenue stability during the period leading up to its next base rate case while its customers benefit from energy savings. Foreseeable revenue deficiencies without an adjustable rate mechanism present a significant hurdle for a voluntary filer to move forward with conservation efforts. Approval of the CD Rider will help the Company overcome this disincentive.

Furthermore, UGI Electric is proposing to recover lost revenues through the CD Rider because the administrative costs of putting on a base rate case (*i.e.*, the costs related to preparing for, filing, and seeking Commission approval of a base rate case) are quite significant and have a disproportionate impact on the customer base of smaller EDCs. Without recovery of lost revenues through an adjustable rate mechanism, the Company will likely be forced to file a base rate case much sooner than it otherwise would. UGI Electric's customers would be materially burdened with these additional administrative costs (on top of the administrative costs relating to developing and implementing the proposed EE&C Plan). To lessen the impact of these costs, it would make sense for UGI Electric, as a smaller EDC, to wait until it absolutely needs to file a rate case, notwithstanding its need to recover the lost revenues associated with the implementation of its voluntary EE&C Plan. Finally, recovery of lost revenues through an adjustable rate mechanism will enhance UGI Electric's incentive to promote the most cost-effective and energy-efficient conservation measures that will ultimately benefit customers.

I. Projection of EE&C Plan Design, Development and Administrative Costs

Q. What is UGI Electric's projection of the annual costs for its EE&C Plan?

A. The projected annual costs for the Company's EE&C Plan are approximately $2.867 million, or approximately 2.3%, which equates to a total budget of approximately $8.6 million over the life of the Plan. This budget includes the Company's annual spending target on the EE&C Plan programs and measures of approximately $2.5 million, plus an additional $367,000 per year to cover the Company's annual internal administrative costs incurred to implement and administer the Plan each year. Exhibit WJM-1 shows the projected annual costs for each program comprising the Plan.

Q. How was the Company's spending target on the EE&C Plan's programs and measures calculated?

A. Act 129 provides that the total costs of any EE&C Plan cannot exceed 2% of the EDC's total annual revenues as of December 31, 2006. In its Implementation Order entered on January 16, 2009 at Docket No. M-2008-2069887 ("Implementation Order"), the Commission concluded that this limitation on the "total costs of any plan" should be interpreted as an annual amount, rather than an amount for the full term of the Plan. In its Secretarial Letter, the Commission recognized that while the cost limits contained in Act 129 are not applicable to a voluntary EE&C plan, an EDC submitting such a plan must justify the level of expenditures using the twelve-month period ending May 31, 2008.

UGI Electric has constructed the Plan with an approximate 2% annual expenditure target on EE&C Plan programs and measures using the base period specified in the Secretarial Order, June 1, 2007 through May 31, 2008. The jurisdictional revenues for this period were approximately $125.3 million. Based on this revenue level, the Company proposes an annual budget for expenditures on the EE&C Plan programs and measures of approximately $2.867 million, which includes internal administrative costs of $367,000 per year associated with the design, development, and administration of the EE&C Plan. Specifically, the internal costs that comprise this amount include, among other things: (1) legal (internal and external), consulting and regulatory costs associated with developing, submitting, and obtaining Commission approval of this Plan; (2) internal costs incurred to manage and administer the programs on an ongoing basis; and (3) internal costs to measure and verify program results. Attached as Exhibit WJM-2 is the schedule showing the breakdown of these administrative costs.

Q. How is the approximate 2% expenditure target allocated among the customer classes?

A. Of the $8.6 million budget, UGI Electric proposes to allocate $5.4 million, plus or minus $0.5 million, over the three years to the residential customer class and $3.2 million, plus or minus $0.5 million, over the three years to the non-residential customer class. These allocations of the total budget amount include an allocation of the internal administrative costs of $367,000 per year based on sales.

Q. How does the Company propose to treat the costs to design and develop the Company's EE&C Plan?

A. The Commission provided in its Implementation Order that EDCs should be permitted to recover the incremental costs incurred to design, create, and obtain Commission approval of a plan. The design and development costs associated with the EE&C Plan are estimated to be $200,000 and are included within the $8.6 million spending target. The Company proposes to defer such development costs and to amortize and recover those deferred costs ratably over the 36-month life of its EE&C Plan. As a result, the Company proposes to recover $67,000 during each year of the Plan.

Q. Did the Company propose a limit on annual expenditures for its EE&C Plan programs?

A. No. UGI Electric anticipates that it will take some time to fully implement the individual programs following Commission approval of UGI Electric's EE&C Plan.

Therefore, spending in the first year of the Plan may be less than the projected $2.867 million, while spending in subsequent years may be greater. The total spending over the three years on the EE&C Plan programs and measures will not exceed the Company's expenditure target of $8.6 million.

II. <u>Recovery of Design, Development and Administrative Costs</u>

Q. Please describe the rate mechanism UGI Electric is proposing to use to recover the development and implementation costs of its EE&C Plan.

A. Act 129 authorizes EDCs to recover the costs of their energy efficiency and conservation plans through a reconcilable adjustment clause under Section 1307 of the Public Utility Code. In its Implementation Order, the Commission reiterated this requirement and also directed that such cost recovery mechanisms be applicable to all electric customers and not affect the EDC's price-to-compare, provided the EDC's plan benefits both shopping and non-shopping customers. Based on this Act 129 requirement, UGI Electric proposes to recover the costs of its EE&C Plan through the reconcilable Energy Efficiency and Conservation Rider ("EEC Rider") that will be imposed under Section 1307 of the Public Utility Code. Because UGI Electric's EE&C Plan will benefit both shopping and non-shopping customers, the Company has designed its cost recovery mechanism to be applicable to default service and choice customers. In this regard, UGI Electric proposes that the cost recovery mechanism be included in the distribution charges for each customer class rather than appear as a separate line item on customers' bills. The *pro forma* tariff pages to implement the EEC Rider are attached to UGI Electric's EE&C Plan as Appendix A. The tariff language provides a description of the cost recovery method, the formula for calculating the charge, and the charges specific to each rate class. Attached to my testimony is Exhibit WJM-3, which shows the calculation of the proposed annual EEC Rider.

Q. Please describe how UGI Electric proposes to set the annual rates under the EEC Rider?

A. The EEC Rider was designed to capture actual yearly expenditures. Although the Company anticipates expenditures to "ramp up" for nearly half of its EE&C Plan programs, it does not project the difference between the expenditures in the first year of the Plan and the expenditures in the last year of the Plan to be significant. Therefore, cost recovery should be relatively even over the term of the Plan and customers should not be impacted significantly by this proposal.

Q. How many customer classes will be reflected in its annual cost recovery mechanism?

A. The Company proposes to calculate separately the applicable EE&C Plan costs for two general customer classes on its system: (1) residential; and (2) non-residential customers, which include small and large commercial and industrial ("C&I") customers and governmental accounts. The residential class includes low-income customers and customers served under Rate Schedules R, RWT, RTU, GS-5 and the residential portion of Rate Schedules CWH, OL, SOL, MHOL, or successor rate schedules. The non-residential class includes all other Company rate schedules not listed in the preceding sentence.

Q. What is UGI Electric's overall approach for determining which customer class is responsible to pay for the programs in the EE&C Plan?

A. Act 129 and the Commission require that the EE&C Plan programs approved by the Commission be supported by the same customer classes that will receive the direct energy and conservation benefits. As a result, under the Company's Plan, the cost of EE&C Plan programs that target specific rate classes are directly assigned to those classes for purposes of developing the recovery charge.

Q. What is the recovery period and when will it begin and expire?

A. The Company proposes that the EEC Rider become effective coincident with the effective date of the first quarterly default service rate filing following Commission approval of the Plan. The Company proposes that the EEC Rider apply to all usage on and after that date, through and until the last day of the respective month in Year Four. As stated above, UGI Electric is only proposing a three-year period for this Plan. However, since Year Three of the EE&C Plan may result in over or under collections of expenses, the rate recovery mechanism must continue through Year Four so that the Company may fully recover any under collection or refund any over collection incurred during Year Three. Also, at the end of the Year Four, a minor amount to be recovered may exist. If this occurs, the Company plans to roll this minor amount into a subsequent default service filing.

Q. Will the Company file for reconciliation each year?

A. The Company proposes to adjust the EEC Rider for actual program expenses and revenues each year. Each year, the Company will submit a filing to become effective on one day's notice to reconcile the previous period's revenues and expenses and adjust the EEC Rider. In addition, the Company reserves the right to make an interim filing (also to become effective on one day's notice) to adjust the EEC Rider if it becomes evident that the over or under recovery is significantly deviating from expected activity. The net over or under collections will be based on the difference between the actual EEC Rider revenues received and the actual EE&C Plan costs incurred. The over or under collection calculation for each year of the EE&C Plan will include the actual over or under collections for the period where the data is known and an estimate of the over or under collection for the period where the data is not known. The difference between the actual net over or under collection for the estimated month(s) of the prior Plan year and the estimated over or under collection will be included in each subsequent Plan year.

III. Projection of Revenue Reductions

Q. Does Act 129 allow recovery of reduced revenues associated with the implementation of a larger EDC's EE&C plan?

A. Act 129 contemplates the recovery of lost revenues due to reduced energy consumption through an EDC's next base rate case. The EDCs subject to Act 129 are permitted to reflect reduced revenues and consumption in the revenue and sales data to calculate proposed rates in a distribution base rate proceeding under 66 Pa.C.S. § 1308.

Q. As a smaller EDC, how is UGI Electric proposing to recover the reduced revenues associated with its voluntary EE&C Plan?

A. As stated above, UGI Electric is not subject to Act 129 because it serves fewer than 100,000 customers. It is submitting this voluntary EE&C Plan in an effort to promote the energy efficiency and conservation efforts of its customers within its service territory. A prohibition on recovery of lost revenues outside the context of a base rate case represents a significant disincentive to a smaller EDC's decision to move forward with a voluntary EE&C plan to promote energy conservation. In particular, assuming UGI Electric's voluntary EE&C Plan is successful, UGI Electric estimates it will experience distribution revenue reductions of approximately $310,000, $696,000, and $1,089,000 in Years 1, 2, and 3, respectively. Given UGI Electric's small size, these revenue reductions are significant. Without the Commission's approval of a reconcilable cost recovery mechanism to recover the reduced revenues, the Company would be in the unenviable position of foreseeable revenue deficiencies without a clear road to recovery.

Furthermore, it is very possible this reduced revenue could force UGI Electric to file a base rate case to recover its lost revenues much sooner than it otherwise would. The administrative costs of putting on a base rate case (*i.e.*, the costs related to preparing for, filing, and seeking Commission approval of a base rate case) are quite significant and have a disproportionate impact on the customer base of a smaller EDC. The cost of putting forth a base rate case is significant and these costs would be passed through to UGI Electric's customers. Due to the small size of its customer base, the rate case-related administrative costs would materially burden UGI Electric's customers (on top of the administrative costs relating to the development and implementation of this voluntary EE&C Plan). This impact is especially significant when compared to the impact on customers of a larger EDC. To lessen the impact of these costs on its customers, it would make sense for UGI Electric, as a smaller EDC, to wait until it absolutely needs to file a rate case, notwithstanding its need to recover the lost revenues associated with the implementation of its voluntary EE&C Plan.

Finally, recovery of lost revenues through an adjustable rate mechanism will enhance UGI Electric's incentive to promote the most cost-effective and energy-efficient conservation measures that will ultimately benefit customers.

Q. What is the Company's projection of lost revenues for each customer class associated with the reduced energy consumption?

A. For the residential class, the projected lost revenues are: (1) approximately $248,000 in Year 1 (November 1, 2011 through October 31, 2012); (2) approximately $552,000 in Year 2 (November 1, 2012 through October 31, 2013); and (3) approximately $860,000 in Year 3 (November 1, 2013 through October 31, 2014). For the non-residential class, projected lost revenues are: (1) approximately $62,000 in Year 1; (2) approximately $143,000 in Year 2; and (3) approximately $228,000 in Year 3. Additional revenue reductions will continue past Year 3 as the program benefits continue to occur on a cumulative basis.

Q. How did the Company calculate the projected revenue reductions?

A. The projected lost revenues were determined by multiplying the calculated deemed savings for each customer class by the average distribution rate for such class for the twelve-month period ending May 31, 2008. For example, for residential customers in Year 1, the projected energy savings of 9.2 million kWh is multiplied by the average residential class distribution rate for the twelve-month period ending May 31, 2008, resulting in $248,262 in lost revenues for the Company.

Q. How did the Company decide which rate to utilize to calculate the anticipated revenue reductions by customer class?

A. UGI Electric's distribution rates have a declining block structure, so a particular rate block can not be selected to develop the lost revenue estimate. Accordingly, the Company decided to use actual average distribution rates for the twelve-month period ending May 31, 2008 in estimating the lost revenues.

IV. Recovery of Revenue Reductions

Q. Please describe the rate mechanism UGI Electric is proposing to use to recover the reduced revenues associated with the reduced energy consumption.

A. UGI Electric proposes to recover the lost revenues associated with the implementation of its EE&C Plan through a reconcilable charge called the Conservation Development Rider ("CD Rider") that will be billed to all customers (default service and choice customers) under Section 1307 of the Public Utility Code. UGI Electric proposes that the CD Rider be applied to the distribution charges for each customer class rather than appear as a separate line item on the customers' bills. The *pro forma* tariff pages to implement this revenue recovery mechanism are attached to UGI Electric's EE&C Plan as Appendix A. The tariff language sets forth the revenue recovery method, the formula for calculating the charge, and the charges specific to each rate class. Attached to my testimony is Exhibit WJM-4, which shows the calculation of the proposed annual CD Rider.

Q. How many customer classes will be reflected in the CD Rider?

A. As discussed in Section III, the Company proposes to calculate separately the applicable revenue reductions for the same major customer classes as developed for recovery of the EE&C Plan program costs.

Q. What is UGI Electric's overall approach for determining which customer class is responsible to pay for the lost revenues associated with the EE&C Plan?

A. As described above, the lost revenues per customer class is determined by the deemed energy savings for the customer class.

Q. Why is the Company proposing to recover lost revenues through a reconcilable rate versus a non-reconcilable rate?

A. The Company is proposing that the CD Rider be reconcilable so that the Company is not rewarded to fail. Distribution base rates are non-reconcilable, which provides the Company the proper incentive to operate efficiently and keep costs from rising. Unlike base rates, however, a non-reconcilable rate under the EE&C Plan would improperly encourage the Company to spend less on EE&C Plan programs and measures than the amount of planned expenditures – an unfavorable result. As a result, the Company proposes to reconcile any under or over collections of lost revenues on an annual basis.

Q. Will the Company file for reconciliation each year?

A. Yes. UGI Electric proposes to adjust the CD Rider each year on a parallel track with the EEC Rider. Each year, the Company will submit a filing to become effective on one day's notice in order to reconcile previous period revenues and expenses and adjust the CD Rider, although the Company reserves the right to make an interim filing (also to become effective on one day's notice) to adjust the CD Rider if it becomes evident that the over or under recovery is significantly deviating from expected activity. The net over or under collections will be based on the difference between the actual CD Rider revenues received and the actual EE&C Plan deemed savings incurred. The over or under collection calculation for each year of the EE&C Plan will include the actual over or under collections incurred during the months of the plan year where the data is known, and will include an estimate of over or under collection for the period where the data is not known. The difference between the actual net over or under collection for the estimated month(s) of the prior plan year and the estimated over or under collection will be included in each subsequent plan year.

Q. What is the recovery period and when will it begin and expire?

A. The Company proposes to recover lost revenues associated with the implementation of the EE&C Plan programs through the CD Rider beyond the life of the Plan. The Company proposes that the CD Rider become effective coincident with the effective date of the first quarterly default service rate filing following Commission approval of the Plan, and apply to all usage on and after that date until an order is entered by the Commission in UGI Electric's next base rate case and the resulting compliance filing becomes effective. This proposal is designed to capture the continued savings beyond the life of the Plan. Even though UGI Electric is only proposing a three-year period for this Plan, customers will continue to conserve energy and save money beyond this time period, and likewise the Company will continue to experience revenue losses. The schedule attached as Exhibit WJM-1 shows that, due to the "ramp-up" effect, customers will experience greater energy savings in later years of the Plan as compared to the earlier years of the Plan, as more conservation measures will have been installed. The Company anticipates that the revenue losses to be experienced in Years Four and Five should be approximate to or slightly greater than the revenue losses incurred during Year Three because all of the planned measures will have been fully implemented by the end of Year Three.

Q. Does this conclude your Direct Testimony?

A. Yes.

VERIFICATION

I, William J. McAllister, hereby state that the facts above set forth are true and correct to the best of my information and belief and that I expect UGI Utilities – Electric Division to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

William J. McAllister

William J. McAllister

Dated: November 9, 2010