BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	**DOCKET NO. R-2015-2518438**
v.	:	
	:	
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. 6 and 6-S, which were filed with the Pennsylvania Public Utility Commission ("Commission") by UGI Utilities, Inc. – Gas Division ("UGI" or the "Company") on January 19, 2016.

UGI also proposed a new Energy Efficiency and Conservation ("EE&C") Program for residential and commercial customers, and a new natural gas Technology and Economic Development ("TED") Rider for commercial customers.

The proposed Tariffs, if approved by the Commission, would have increased UGI's annual revenue by approximately $58.6 million per year.

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. Interruptible Revenues at Current Rates

In this proceeding, UGI departed from all known regulatory traditions and proposed that current rates revenues be determined based on the average of two alternative cost allocation methodologies, rather than being based on current rates and a budget forecast. As a result, the Company reported that current rates revenues for interruptible customers in the forecast test year would be " . . . $4.9 million, compared to historical revenues in the $19.6 to $26.6 million range and the Company's actual budget revenues of $20.6 million." OSBA Statement No. 2, at 10. This bit of legerdemain served " . . . to overstate the Company's need for an annual base rate increase by approximately $15 million." *Id.*

The Company's approach was simply wrong, as evidenced by the testimony of I&E, OCA and OSBA in this proceeding. As Mr. Knecht indicated,

> [T]he Company proposes to set current-rates interruptible service revenues at allocated costs, using an average of its two cost allocation methods. This is absurd, since current-rate revenues should be set based on current-rate revenues, not allocated costs.

Id., at 8-9.

The *Joint Petition* rightly rejects the Company's position in its entirety, and specifies that current rates revenue for interruptible customers be set at $19.356 million. *Joint Petition,* Paragraph 19. OSBA therefore 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 one COSS in Exhibit D of its January 19, 2016 filing; a second COSS using a different methodology in Exhibit D1; and an average of the two COSS's in Exhibit D2. *Id.*, at 6. A description of UGI's COSS methodologies, as well as supporting materials, was provided by the Company. *Id.*

Mr. Knecht also presented a COSS in this proceeding. *Id.* As may have been expected, given the length of time between this proceeding and the Company's last base rates case, COSS methodology was a contentious issue. *See, e.g.*, OSBA Statement No. 2, at 4-9.

The *Joint Petition* does not adopt any specific COSS methodology. This is a direct result of the settlement being a "black box." *Joint Petition*, Paragraph 17. 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 27 (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 28-29. 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	1.2%	$35.1
N/NT	9.9%	($20.3)
DS	9.8%	($ 3.8)
LFD	9.0%	($ 7.9)
XD	43.8%	($11.0)
IS	-2.8%	$ 8.0
System	4.4%	--
*A positive cross-subsidy value indicates the class is being subsidized; a negative value indicates it is providing the subsidy. Source: Exhibit IEc-3		

OSBA Statement No. 1, at 29.

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 31.

For the XD rate class, the largest customers have negotiated rates. Therefore, the OSBA would not assign a rate increase or rate decrease to the XD class. *Id.*

For the N/NT, DS, and LFD classes, the OSBA would be assigned a rate increase that would lessen the subsidies provided by these classes. *Id.*

The results of the OSBA recommendations, at the Company's original, full revenue requirement, 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	$44.18	40.7%	$35.1	$20.5	41%
N/NT	$ 7.27	13.2%	($20.3)	($12.6)	38%
DS	$ 1.43	13.5%	($ 3.8)	($ 2.4)	38%
LFD	$ 3.79	15.1%	($ 7.9)	($ 5.1)	36%
XD	--	0.0%	($11.0)	($ 7.8)	29%
IS	$ 1.90	38.7%	$ 8.0	$ 7.4	7%
System	$58.56	27.1%	--	--	--
*A positive cross-subsidy value indicates the class is being subsidized; a negative value indicates it is providing the subsidy. Source: Exhibit IEc-3					

OSBA Statement No. 1, at 32.

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

	Total	R/RT	N/NT	DS	LFD	XD Firm	Interruptible
Current Rates Revenue	238,983,720	112,503,941	57,321,011	13,003,988	25,013,284	11,785,496	19,356,000
Revenue Allocation	27,000,000	19,000,000	5,681,249	924,514	1,754,237	0	-360,000
Percent Increase	11.3%	16.9%	9.9%	7.1%	7.0%	0.0%	-1.9%
Share of Increase	100%	70.4%	21.0%	3.4%	6.5%	0.0%	-1.3%

Joint Petition, at Paragraph 32.

Specifically, the R/RT class receives over 70% 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.*

4. Rate Design

Mr. Knecht explained N/NT, as follows:

> The current Rate N/NT tariffs recover distribution costs with a flat monthly customer charge and a set of declining block energy charges, which are seasonally differentiated for customers with high volumes. The Company proposes to substantially simplify this tariff, by adopting a tariff with a customer charge and a single volumetric charge. The Company's proposal is summarized in Table IEc-6 below.

OSBA Statement No. 1, at 32. Table IEc-6 is set forth below:

Table IEc-6
UGI Gas Proposed Changes to Rate N/NT Distribution Tariff Charges

		Current	Proposed	Percent Change
Customer Charge	$/mo.	$8.55	$32.00	274.3%
First 25 mcf/month	$/mcf	4.0268	3.6932	-8.3%
Next 475 mcf/month	$/mcf	3.5309		4.6%
Over 500 mcf/month Winter	$/mcf	2.4374		51.5%
Over 500 mcf/month Summer	$/mcf	2.2902		61.3%
Source: Exhibit E				

Id., at 33.

This table demonstrates that UGI originally proposed a huge increase in the customer charge for Rate N/NT customers. Although the proposed changes in the tariff block structure would have provided some relief, a typical business customer at the smaller end of the Rate N/NT class could have seen a 50% increase in her distribution rates. *Id.*

Naturally, the OSBA opposed this extreme increase in the Rate N/NT customer charge. Specifically, Mr. Knecht recommended that the Rate N/NT customer charge be set at a maximum of $20.00. OSBA Statement No. 1, at 34.

The *Joint Petition* adopts Mr. Knecht's recommendation and sets the Rate N/NT customer charge to $16.00. *Joint Petition*, Paragraph 33(b). This value is reasonably consistent with Mr. Knecht's recommendation, scaled back to reflect the reduction in the class revenue requirement. Therefore, the OSBA supports the resolution of this issue as set forth in the *Joint Petition.*

5. The TED Rider

Mr. Knecht described UGI's proposed Ted Rider, as follows:

> As proposed by the Company, the TED Rider is a tariff provision that would essentially allow the Company to establish negotiated rates with any N, NT, DS or LFD customer. It would ostensibly be used to attract new gas load, encourage technology innovation, and support economic development. The rider provisions can take the form of a tariff charge or a credit relative to regular tariff rates. The charge would effectively be used as a replacement for an upfront customer contribution. The credit would apply in cases where the distribution margin generated by new customers exceeds the incremental cost of attaching a new customer, and would be a mechanism to return some of that value to the new customer.

OSBA Statement No. 1, at 36. Ultimately, Mr. Knecht stated:

> Thus, as proposed, I conclude that the TED Rider proposal is unduly discriminatory and does not contain reasonable economic and competitive protections for existing customers.

Id., at 38.

Clearly, the OSBA has little enthusiasm for the Company's proposed TED Rider. *See also*, OSBA Statement No. 1, at 36-38. In this proceeding, the Company appears to be trying to move the Commission into approving a rate regime where the Company is free to provide rate discounts to almost any customer it wants, while recovering the shortfall from customers who have no competitive options or who face relatively high costs of conversion. However, as a settlement, the OSBA agreed that UGI should conduct a three-year pilot program of the TED Rider. The pilot program will require the Company to generate data on the performance and economics of the TED Rider, allowing all parties to examine whether such a program is viable and reasonable. *Joint Petition*, Paragraph 36. Further, the limited timeframe of the pilot helps to assuage the concerns set forth by Mr. Knecht regarding the possible discriminatory effects of the TED Rider.

For these reasons, and under these strictly controlled circumstances, the OSBA supports the proposed TED Rider pilot program as set forth in the *Joint Petition*.

6. The EE&C Plan: Carbon Taxes and DRIPE

UGI originally proposed to include of hypothetical carbon tax costs and demand reduction induced price effects ("DRIPE") in its Total Resource Cost ("TRC") Test methodology. OSBA Statement No. 1, at 42.

The hypothetical carbon tax is just that. No such tax has been imposed by the federal government, state government, or recognized by the Commission. *Id.*, at 42-43. For the EE&C programs at electric distribution companies mandated by law, the Commission has explicitly rejected the idea of including any benefits associated with as yet un-enacted carbon tax regimes. *Id.*, at 42-43.

In addition, Mr. Knecht explained DRIPE, as follows:

> Regarding DRIPE, it is likely true that any reduction in the aggregate demand for natural gas in North America will have some impact on prices, as more expensive sources of natural gas are forced out of the market. However, while this reduction in prices is a benefit to gas customers, that benefit is offset by the loss to gas producers. In economic terms, this is a gain in consumer surplus

> offset by a reduction in producer surplus. Since Pennsylvania is a major net exporter of natural gas, the economic impact on Pennsylvania of natural gas price suppression is likely to be net negative, not net positive. As a matter of public policy, it does not appear to be sensible to claim a benefit associated with reduced natural gas prices without recognizing the concomitant impact of those price reductions on Pennsylvania employment, lease payments, royalties, taxes, etc. in the gas producing industry.
>
> Moreover, in this respect, I did not locate any policy adopted by the Commission with respect to the TRC Test which includes price suppression benefits associated with reduced energy consumption.

OSBA Statement No. 1, at 43 (footnote omitted).

To resolve this dispute between the OSBA and UGI, the *Joint Petition* proposes to that the Company shall proposed its TRC Test both with and without the inclusion of hypothetical carbon taxes and DRIPE. This resolution is acceptable to the OSBA, because, as filed, the Company's EE&C plans pass the TRC Test without including the specious benefits of hypothetical carbon taxes and DRIPE. *Id.,* at 42. As such, the *Joint Petition* will require UGI to provide the information necessary to evaluate whether its EE&C programs meet a reasonable test.

7. The EE&C Plan: Participant Contribution

As a general matter, OSBA is concerned about the proliferation of EE&C programs at Pennsylvania utilities which are not mandated by law. The essence of these programs is that customers are unable or unwilling to make conservation investments that are in their own economic interest, and must be subsidized to do so. Needless to say, utility shareholders are generally uninterested in providing such subsidies, and these programs are therefore funded by other ratepayers, in what is essentially a tax-and-spend program. As a result, a small number of ratepayers benefit from these programs, almost entirely at the expense of customers who do not benefit. This philosophy goes against one of the most fundamental of all regulatory principles, namely that ratepayers should pay for the costs they cause, and they should not pay for the costs associated with other customers.

However, as the Commission has clearly approved these plans in the past, OSBA's goal in this case is simply to try to ensure that the beneficiaries make a reasonable contribution on their own behalf, and that non-participant costs are not excessive.

To that end, in his direct testimony, Mr. Knecht provided Table IEc-8 that set forth the Company's proposed participant contribution from non-residential customers:

Table IEc-8
Summary of Proposed Non-Residential EE&C Program Costs (Full Five Years)
$000

	O&M/A&G	Incentive	Participant	Total	Participant %
NP	657	1,683	2,537	4,877	52.0%
NR	768	459	554	1,782	31.1%
NC	626	521	193	1,341	14.4%
CHP	795	2,000	56,261	59,056	95.3%
Portfolio	620	0	0	620	0.0%
Total	**3,466**	**4,664**	**59,545**	**67,675**	**88.0%**
NP/NR/NC	2,051	2,664	3,284	8,000	41.1%

Source: Exhibit IEc-3, OSBA-I-29

OSBA Statement No. 1, at 44.

Mr. Knecht's Table illustrates that UGI originally proposed to require ratepayers to provide a more than two-thirds subsidy to NR program participants, and an 85% subsidy to NC program participants. Such excessive subsidies are absurd. Mr. Knecht recommended that all such subsidies be set in the 50% range. *Id.*

The *Joint Petition* proposes to limit the overall ratepayer share of costs of the NP, NR, and NC programs to 55% in the aggregate (over the full five year period). The *Joint Petition's* proposal both complies with the recommendation of Mr. Knecht, it also provides a much more just and reasonable result for non-participants. For these reasons, the OSBA supports the *Joint Petition's* proposal on this issue.

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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