

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

RECOMMENDED DECISION

Before
Susan D. Colwell
Administrative Law Judge

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I. INTRODUCTION

This Recommended Decision recommends approval of a complete settlement in a base rate case. All litigating parties are in agreement, and the three self-represented complainants were given an opportunity to pursue their formal Complaints but declined to present testimony or to comment on the Settlement. The parties agree that the Joint Petition for Settlement should be approved in its entirety and without modification as consistent with the law and in the public interest. The Commission must consider this matter no later than its scheduled October 6, 2016 public meeting.

II. HISTORY OF THE PROCEEDING

On January 19, 2016, UGI Utilities, Inc. (UGI or Company) filed Tariff Gas – PA. P.U.C. Nos. 6 and 6-S to become effective March 19, 2016, seeking a general rate increase calculated to produce \$58.6 million (17.5%) in additional annual revenues. Notice of the filing was published in nine newspapers of general circulation.¹

On February 1, 2016, the Commission's Bureau of Investigation and Enforcement (I&E) filed its notice of appearance. On February 2, 2016, the Office of Consumer Advocate (OCA) filed a formal complaint and public statement.

Pursuant to 66 Pa. C.S. §1308(d), the filing was suspended by operation of law on February 11, 2016, until October 19, 2016, unless permitted by Commission Order to become effective at an earlier date.

Notice of prehearing conference was issued and posted to the Commission's website on February 2, 2016, which scheduled the prehearing conference for Wednesday, February 17, 2016 and assigned the case to Administrative Law Judges Steven Haas² and to me.

¹ Proof of publication was filed on February 16, 2016.

² ALJ Haas recused himself on February 15, 2016.

We issued a prehearing order on February 3, 2016, which was posted to the Commission's website and set forth some of the requirements for participating in a formal rate proceeding before the Commission.

On February 9, 2016, the Commission on Economic Opportunity (CEO) filed a Petition to Intervene. On February 11, 2016, the Office of Small Business Advocate (OSBA) filed its Complaint and Public Statement.

On February 12, 2016, a group of natural gas suppliers (NGSs) comprised of Dominion Retail, Inc., d/b/a Dominion Energy Solutions, Shipley Choice, LLC d/b/a Shipley Energy, Interstate Gas Supply, Inc. d/b/a IGS Energy, AMERIGreen Energy, and Rhoads Energy (collectively NGS Parties) filed a petition to intervene. Also on February 12, 2016, the Coalition for Affordable Utility Service – PA (CAUSE-PA) filed a petition to intervene. On February 15, 2016, the Retail Energy Supply Association (RESA) filed a petition to intervene.

On February 16, 2016, the UGI Industrial Intervenors (UGIII) filed a formal Complaint at Docket No. C-2016-2529436.

Prehearing memoranda were filed by the Company, OCA, OSBA, I&E, CEO, CAUSE – PA, the NGS Parties, RESA, and UGIII.

The prehearing conference was held as scheduled, and the following counsel attended: David B. MacGregor, Esq., Christopher T. Wright, Esq., Garrett Lent, Esq., and Mark Morrow, Esq., for UGI; Amy E. Hirkakis, Esq., and Lauren M. Burge, Esq., for OCA; Scott B. Granger, Esq., for I&E; Sharon Webb, Esq., for OSBA; Elizabeth Marx, Esq., for CAUSE-PA; Todd S. Stewart, Esq., for the NGS Parties; John Povilaitis, Esq., and Karen O. Moury, Esq., for RESA; and Alessandra L. Hylander, Esq., for UGIII.

The petitions to intervene of CEO and CAUSE-PA were unopposed. The Company opposed the petitions to intervene of the NGS Parties and RESA for several reasons. First, the lack of a membership list for RESA makes it unclear whether the NGS Parties are members and are, therefore, already represented under the RESA petition. Without the list, the

Company stated that RESA has not proven standing. Following discussion, counsel for RESA agreed to provide a membership list, and counsel for NGS Parties was cautioned that his clients could not appear on behalf of RESA even if they are members of RESA as they are already appearing in their own names under the auspices of the NGS Parties. Accordingly, all petitions to intervene were granted in the Scheduling Order (Second Prehearing Order issued February 19, 2016, which included a litigation schedule and discovery modifications as well as other procedural directions).

Individual complainants are: Joseph P. Sandoski, Docket No. C-2016-2529638; Vicki L. East, Docket No. C-2016-2534010; and Tom Harrison Docket No. C-2016-2534992.

The Company represented that they would be requesting a protective order, and a Motion for Protective Order was filed on March 9, 2016. The Motion stated that all litigating parties, save the individual complainants, were contacted and do not oppose the suggested wording of the proposed protective order. The protective order supports a quick turnaround in discovery exchange while still allowing for challenges to the designation of "confidential" and "highly confidential" information, which means that the grant of this Motion had no prejudicial effect on any person. The Motion was granted by Order dated March 10, 2016.

Two telephonic, live-streamed, public input hearings were held in Harrisburg on March 31, 2016, at 1:00 pm and 6:00 pm. Five witnesses appeared in total. One additional hearing was held in Allentown on April 4, 2016, at 6:00 pm, and two witnesses appeared (a third person indicated agreement and did not testify).

The parties informed me that a full settlement of all issues save one had been negotiated before the formal hearings commenced. All parties agreed to the submission of all testimony and exhibits without cross-examination, which occurred as scheduled on June 2, 2016. Following the hearing, the parties informed me that the settlement would include all issues and all parties. Accordingly, the parties filed their Joint Petition for Approval of Settlement of All Issues (Joint Petition) on June 30, 2016. Statements in support were filed by UGI, OCA, I&E, OSBA, UGIII, CEO, the NGS parties, RESA, and CAUSE-PA.

The three self-represented complainants were sent a copy of the Joint Petition along with a letter dated July 1, 2016 informing them that they had the right to join, object, or take no position on the Joint Petition within ten days. None of them had appeared at either the evidentiary hearings or the public input hearings. No response was received by the date of this Recommended Decision.

The matter is ripe for disposition.

III. FINDINGS OF FACT

1. UGI Utilities, Inc. – Gas Division is a jurisdictional public utility providing natural gas distribution service to approximately 388,000 customers in fifteen eastern and south central counties in the Commonwealth of Pennsylvania.

2. The Bureau of Investigation & Enforcement is the prosecutory bureau for purposes of representing the public interest in ratemaking and service matters before the Office of Administrative Law Judge and for enforcing compliance with the state and federal motor carrier safety and gas safety laws and regulations. *Implementation of Act 129 of 2008 Organization of Bureau and Offices*, Docket No. M-2008-20071852 (Order entered August 11, 2011).

3. Complainant Office of Consumer Advocate is authorized to represent the interests of consumers before the Commission. Act 161 of 1976, 71 P.S. § 309-2.

4. Complainant Office of Small Business Advocate is authorized and directed to represent the interest of small business consumers of utility service in Pennsylvania under the provisions of the Small Business Advocate Act, Act 181 of 1988, 73 P.S. §§ 399.41-399.50.

5. The Commission on Economic Opportunity is a not-for-profit corporation organized and existing under the laws of the Commonwealth of Pennsylvania which serves as an advocate for the low-income population of Luzerne County.

6. The NGS Parties are a group of natural gas suppliers (NGSs) comprised of Dominion Retail, Inc., d/b/a Dominion Energy Solutions, Shipley Choice, LLC d/b/a Shipley Energy, Interstate Gas Supply, Inc. d/b/a IGS Energy, AMERIGreen Energy, and Rhoads Energy, each of which operates in UGI's service territory.

7. CAUSE – PA is an unincorporated organization of low-income individuals that advocates on behalf of its members to enable consumers of limited economic means to connect to and maintain affordable water, electric, heating and telecommunications services.

8. RESA is a broad and diverse group of retail energy suppliers who share the common vision that competitive retail electricity and natural gas markets deliver a more efficient, customer-oriented outcome than does the monopoly, rate-regulated utility structure. RESA Stmt. at 2-3.

9. Complainant UGI Industrial Intervenors is an organization of industrial customers of UGI, comprised of the following at the time of this writing: ArcelorMittal Steelton, LLC; Carpenter Technology Corporation; and East Penn Manufacturing Company, Inc., Lehigh Heavy Forge Corporation, and Lehigh University.

10. Joseph P. Sandoski is a self-represented complainant residing at 421 E. Clay Street, Lancaster, PA 17602-2153. Docket No. C-2016-2529638.

11. Vicki L. East is a self-represented complainant residing at 1039 Barberry Street, Reading PA 19605. Docket No. C-2016-2534010.

12. Tom Harrison is a self-represented complainant residing at 14 Creekside Drive, Millersville, PA 17551-9552. Docket No. C-2016-2534992.

IV. TERMS OF THE SETTLEMENT

The following is taken directly from the Joint Petition for Approval of Settlement of All Issues. The numbering is retained from the Joint Petition for ease of reference.

A. General

15. The following terms of this Settlement reflect a carefully balanced compromise of the interests of all of the active Parties in this proceeding. The Joint Petitioners unanimously agree that the Settlement is in the public interest.

16. The Joint Petitioners unanimously agree that UGI Gas's January 19, 2016 distribution base rate increase filing will be approved, including those tariff changes included in and specifically identified in Appendix A attached hereto, subject to the terms and conditions of this Settlement specified below:

B. Revenue Requirement

17. UGI Gas will be permitted to submit a revised tariff supplement designed to produce an annual distribution rate revenue increase of \$27 million, to become effective for service rendered or and after October 19, 2016. The increase in annual operating revenue is in lieu of the as filed net increase of approximately \$58.6 million. The settlement as to revenue requirement shall be a "black box" settlement, except for the items that follow.

18. Proof of revenue will include \$2.348 million of additional revenues for deleted charges in present rate revenue and \$0 in proof of revenue for settlement rates for these charges.

19. Proof of revenue will include a total of \$19.356 million of interruptible revenue in present rates and \$18.996 million of revenue for settlement rates.

20. This Settlement includes an annual amount of \$2.0 million for environmental costs. Annual differences between \$2.0 million and actual expenditures shall be deferred as a regulatory asset (where expenditures are greater than \$2.0 million per year) or as a regulatory liability (where expenditures are less than \$2.0 million on an annual basis) and accumulated for book and ratemaking purposes until UGI Gas's next base rate case in the manner described in the direct testimony of Ann Kelly, UGI Gas Statement No. 2, p. 29.

21. Billing Determinants:

(a) Use per customer billing determinants utilized will be:

- (i) Residential Heating – 73.0 Mcf
- (ii) Commercial Heating – 526.74 Mcf.

(b) Class billing determinants will be

- (i) R/RT: 23,942,863 Mcf
- (ii) N/NT: 14,753,373 Mcf
- (iii) DS: 3,431,371 Mcf
- (iv) LFD: 14,564,585 Mcf
- (v) Interruptible: 50,276,404 Mcf
- (vi) XD: 17,418,626 Mcf

22. Repairs Allowance: For purposes of determining the revenue requirement in this case, all capitalized repairs deductions claimed on a tax return have been normalized for ratemaking purposes and the appropriate related amount of tax effect of those deductions has been reflected as Accumulated Deferred Income Taxes as a reduction to UGI Gas's rate base.

23. Accumulated Deferred Income Taxes ("ADIT"): UGI Gas's ADIT pro-rationing methodology is adopted.

24. Test Year Plant: The Company shall submit an update to I&E Exhibit No. 6, Schedule 1 as well as UGI Gas's filing requirement Attachment SDR ROR-14, pages 1-2 to I&E, OCA, and OSBA no later than January 1, 2017 (I&E Exhibit No. 6, Schedule 2), which update should include actual capital expenditures, plant additions, and retirements by month

from October 1, 2015 through September 30, 2016, and an additional update for actuals from October 1, 2016 through September 30, 2017 shall be filed no later than January 1, 2018.

25. UGI Gas's Next Information Technology Enterprise ("UNITE"): UGI Gas's accounting treatment for UNITE as explained in UGI Gas Statement No. 2 and 2-R is adopted.

26. Other Post-Employment Benefits ("OPEB") Refund: OPEB credit balance of \$10.027 million will be amortized using a 10-year schedule.

27. For purposes of this settlement, UGI Gas's as-filed end-of-year rate base methodology is accepted.

28. As of the effective date of rates in this proceeding, UGI Gas will be eligible to include plant additions in the Distribution System Improvement Charge ("DSIC") once DSIC-eligible account balances exceed the levels projected by UGI Gas at September 30, 2017 on SDR-ROR-14. 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 a FPFTY filing.

29. The \$27 million increase includes \$2.659 million for the first year spending of UGI Gas's EE&C Plan.³

30. For purposes of this settlement, UGI Gas's as-filed depreciation rates are accepted.

31. The current returned check fee will remain at \$20.00 as set forth on Page No. 31 of the Tariff included in Appendix A.

³ Energy Efficiency & Conservation Plan (footnote added).

C. Revenue Allocation/Rate Design

32. The Parties agree to the following Revenue Allocation:

	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%

33. Customer Charges:

- (a) Rate R/RT: \$11.75;
- (b) Rate N/NT: \$16.00;
- (c) Rate DS: \$290.00 (as-filed, unchanged from current);
- (d) Rate LFD: \$700.00 (as-filed, unchanged from current).

34. Block Design:

- (a) Rate R/RT: eliminate blocked design;
- (b) Rate N/NT: eliminate blocked design;
- (c) Rate DS: consolidate to two block design (500 Mcf interval);
- (d) Rate LFD: consolidate to two block design (1,000 Mcf interval)

35. Universal Service Plan (“USP”) Rider: Actual recoverable costs shall also reflect actual Customer Assistance Program (“CAP”) Credits and actual pre-program arrearages, provided that CAP participation on an average annual basis for the preceding year did not exceed 8,700 participants. In the event that CAP participation in the preceding year exceeded 8,700 on an average annual basis, actual recoverable costs shall reflect actual CAP Credits and actual pre-program arrearages for all customers up to the 8,700 participation level. For any and all CAP customers exceeding the 8,700 participation level on an average annual basis, UGI Gas shall offset the CAP Credits and actual pre-program arrearages by 9.4%.

36. Technology and Economic Development (“TED”) Rider: The TED Rider is approved as a three-year pilot program. Six months before the end of the three-year pilot program, UGI Gas will report on the economics of the TED Rider. UGI Gas will add language

to the TED Rider tariff clarifying that the overall economics of the arrangement with the customer receiving the TED Rider must meet the economic tests applicable to line extensions. UGI Gas will maintain records of all TED Rider investments and TED Rider negotiated rates. In the event that UGI Gas files a general base rate case during the three-year TED Rider pilot program following the effective date of rates established in this proceeding, UGI Gas will provide information, as part of its initial filing, showing the pro forma rate of return on incremental investment for TED Rider customers as a sub-class in its filed cost of service study.

D. Energy Efficiency and Conservation Plan

37. A five-year total spending cap for the Energy Efficiency and Conservation (“EE&C”) Plan shall be \$27 million based on UGI Gas’s proposed five-year EE&C Plan. Rate Schedule LFD customers shall be responsible for no more than \$1.1 million in EE&C costs over the five-year EE&C Plan.

38. UGI Gas will establish four EE&C rate classes: (1) R/RT; (2) N/NT; (3) DS; and (4) LFD. Each rate class will only have costs allocated to it for the programs for which that rate class is eligible, as further described in UGI Gas Exhibit DEL-30.

39. UGI Gas agrees to develop targeted EE&C Plan marketing materials for existing residential multi-family customers and new multi-family residential construction, including master-metered multifamily⁴ residences, with such materials focusing on targeting of property management companies and landlords. The materials will be applicable to both residential and commercial class multifamily structures. UGI Gas agrees to coordinate with the Pennsylvania Housing Alliance and the Pennsylvania Housing Finance Agency. UGI Gas agrees to track participation for buildings with more than one unit.

40. UGI Gas agrees that customers who contact UGI Gas or its EE&C Conservation Service Providers (“CSPs”) with interest in participating in the EE&C Plan will be

⁴ The Settlement uses both "multi-family" and "multifamily," and they are reprinted here as they are in the Settlement.

informed that they might qualify for LIURP⁵ if they are income qualified and will refer such customers to the LIURP program. UGI Gas will also refer confirmed low-income customers to UGI Gas's LIURP.

41. UGI Gas will submit an annual report to the Commission relating to the results of the EE&C Plan within UGI Gas's service territory. The report shall include: (1) documentation of program expenditures and program participation; (2) measurement and verification of energy savings under the Plan; and (3) total resource cost test results for individual programs and overall Plan with and without the economic effects of carbon taxes and DRIPE⁶ in the evaluations of the cost effectiveness of the programs.

42. Recoverable utility costs (including incentives, program administration, marketing, inspections and evaluation but excluding portfolio-wide costs) for the non-residential prescriptive ("NP") program, the non-residential retrofit ("NR") program and the non-residential new construction ("NC") program over the five-year life of the EE&C plan shall be limited to 55 percent of the overall costs for these three programs in the aggregate. Grant funding will be considered a source of participant funding. To the extent that UGI Gas deems that utility contributions in excess of 55 percent of overall program cost are required to achieve UGI Gas's desired participation levels, UGI Gas may voluntarily make the necessary contributions without EE&C cost recovery. EE&C programs targeted at multi-family customers who take service under non-residential rate classes will be comparable to similar programs targeted at multi-family customers who take service under residential rate classes, in terms of the levels of participant contributions, incentive, program administration, marketing, inspection, and evaluation costs.

43. All appliances and equipment qualifying for rebates or incentives under the EE&C plan must meet or exceed U.S. Department of Energy "EnergyStar" Minimum Standards to the extent such standards exist.

⁵ LIURP stands for Low Income Usage Reduction Program (footnote added).

⁶ DRIPE stands for demand reduction induced price effects (footnote added).

44. Incentives, rebates, or credits under the EE&C Plan are primarily intended to provide incentives to cover the cost difference between baseline gas and more efficient gas appliances.

45. UGI Gas shall hold an annual stakeholder meeting (Parties to this proceeding and other entities that express interest) to review and discuss the EE&C Plan's progress, as well as receive input from stakeholders on potential modifications to the EE&C Plan, if any. Each annual stakeholder meeting shall be held: (1) at a time and place chosen by UGI Gas; and (2) within three months after UGI Gas submits its annual EE&C Plan report to the Commission. UGI Gas will provide a copy of its annual EE&C Plan report to the stakeholders at the time it is submitted to the Commission, and will review and discuss the report at the stakeholder meeting.

E. Universal Services

46. Unless specifically noted below, UGI Gas agrees to implement the following Universal Service program changes within ninety (90) days of the effective date of the rate increase. After this period, UGI Gas will hold a one-time collaborative meeting with the Parties to provide the Parties the opportunity to review and comment on UGI Gas's implementation of those changes. UGI Gas will file a status report with the Commission certifying that the agreed-upon policy changes have been implemented within one hundred and fifty (150) days of the effective date of the rate increase.

47. UGI Gas will increase LIURP funding by the percentage distribution rate increase for the residential customer classes reflected in the Revenue Allocation set forth in Paragraph 32 above (16.9% x \$1.1 million, or by \$185,900). This increase in LIURP funding is conditioned on full recovery of LIURP as proposed through USP Rider mechanism per UGI Gas's proposal. The Parties agree that this funding increase will take effect on January 1, 2017. Annual funds not expended will rollover and be added to the funds available for expenditure in the following year(s). The Parties retain the right to review and file testimony/comments concerning any such proposals as permitted by the normal Commission process for review of Universal Service and Energy Conservation Plans ("USECP"). The Parties agree that UGI Gas's

LIURP funding level will not be challenged by the Parties to this settlement prior to the termination of UGI Gas's current triennial Universal Service Proceeding Plan period ending December 31, 2017.

48. UGI Gas agrees to modify proposed Tariff Rule 9.1(b) to state that "UGI Gas 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 level threshold." UGI Gas will not require customer information to verify income if the customer has established income verification through receipt of Low-Income Home Energy Assistance Program ("LIHEAP") within the past 12 months or if the customer is currently participating in CAP.

49. To enhance UGI Gas's CAP solicitation efforts, UGI Gas will encourage Community Based Organizations ("CBOs") to conduct additional outreach to these customers. UGI Gas agrees to include CAP outreach as an agenda item at its biannual Universal Service committee meetings, and will propose measures for enhanced CAP enrollment in its next triennial Universal Service filing.

50. To enhance UGI Gas's CAP efforts to identify and track its low-income customers, UGI Gas will inform applicants and customers of the opportunity for security deposit waiver for income qualified households, and will request income information on the initial call to establish new service and/or to restore previously terminated service. Once the customer confirms he/she is low-income (by verifying low-income status to a CBO or by receiving LIHEAP), any deposit will be waived and any previously collected deposit will be applied to the account.

51. UGI Gas agrees to continue to screen for eligibility and/or refer all individuals calling about a payment arrangement or similar credit-related issue to appropriate Universal Service programs.

52. To improve the reporting of customers enrolled in deferred payment plans, UGI Gas will include in applicable reports to the Commission those customers who are in default of their payment arrangements, but who are still active customers.

53. UGI Gas agrees to revise its training materials to clarify that UGI Gas does not require a low-income customer to enroll in a Universal Service program to qualify for waiver of a security deposit, and that the only requirement for such a waiver is income verification.

54. UGI Gas will clarify its tariff language to reflect that it does not require annual income to establish eligibility for cold weather shutoff protections and that it does accept annualized income (i.e. 30-days, 90-days) to establish winter shutoff protections.

55. UGI Gas agrees to consult with its CBOs and investigate the feasibility of using alternative communication means (including but not limited to telephone, fax [sic], email, and web-based alternatives) to process applications and verify income for the purposes of security deposit waiver [sic] and enrollment in Universal Service programs. Alternative methods determined to be feasible will be described in UGI Gas's next triennial Universal Service filing, and implemented with the start of that USECP. If no alternatives are determined to be feasible, UGI Gas will include an explanation of its investigation and conclusions in its next Universal Service filing.

56. UGI Gas intends to continue to use CBOs to assist in the implementation of its Universal Service programs, subject to changes ordered by the Commission in UGI Gas's future Universal Service proceedings. The Parties retain the right to review and file testimony concerning any such proposals as permitted by the normal Commission processes for review of USECPs.

F. Language and Access Issues

57. To enhance Spanish Speaking customers' ability to understand the availability of UGI Gas's Universal Service programs UGI Gas agrees:

- (a) To translate the two remaining program documents (one for LIURP, one for Operation Share) into Spanish; and

(b) To require UGI Gas's CBOs to have access to Spanish language interpretation services if 5% or more of the residents in portion of the service territory serviced by the CBO speak Spanish as based on US census data.

58. UGI Gas's form of identification policy shall be revised to provide that before initiating service, an applicant must provide: (1) one valid government issued photo identification; (2) two valid alternative forms of identification (one of which must include a photo of the individual) if a government issued photo identification is unavailable; or (3) the applicant's Social Security Number. The term "government issued photo identification" includes photo identifications issued by foreign governments.

G. Medical Certificate

59. UGI Gas agrees that it will clarify its medical certificate procedures to reflect its practice of faxing the medical certificate form directly to a physician's office when provided the fax number by the customer.

60. UGI Gas agrees that it will clarify its medical certificate procedures to state that UGI Gas's medical certificate form is not the only means of obtaining a medical certificate and that UGI Gas will accept any writing that contains the information required by Chapter 14 of the Public Utility Code and Chapter 56 of the Commission's regulations. UGI Gas will continue to use the two examples of a letter on physician letterhead and writing on a physician's prescription pad; however, it will clarify its procedures to reflect that these two examples are not exhaustive.

H. Protection from Abuse Procedures

61. UGI Gas agrees to revise its Protection From Abuse ("PFA") procedures to clarify that the PFA protections apply to applicants and customers who are PFA plaintiffs as well as applicants or customers who are subject to a court order issued by a court of competent

jurisdiction in the Commonwealth of Pennsylvania where that order provides clear evidence of domestic violence against the applicant or customer.

62. UGI Gas will clarify its PFA procedures to state how the validity of non-PFA orders that otherwise provide clear evidence of domestic violence against the applicant or customer will be confirmed by UGI Gas.

63. Currently UGI Gas's PFA policy states that "if a PFA is delivered to UGI, and it falls outside the scope of the standard Defendant is husband, Plaintiff is wife, seek assistance of the PFA team or manager to verify the PFA Rules apply." CAUSE-PA contends that this creates an assumption that the typical PFA involves a heterosexual spousal relationship. UGI Gas agrees to update its UGI Gas training documents to remove any suggestion that PFAs are only applicable to traditional husband-wife spousal relationships and to clarify that anyone who submits a PFA or order of a court of competent jurisdiction of the Commonwealth of Pennsylvania which provides clear evidence of domestic violence will be granted the protections available under Chapter 14 of the Public Utility Code and Chapter 56 of the Commission's regulations.

64. UGI Gas agrees to generally update its PFA policy language to clarify the applicable statutory and regulatory protections for victims of abuse as demonstrated by submission of a PFA or an order of competent jurisdiction of the Commonwealth of Pennsylvania which provides clear evidence of domestic violence.

65. UGI Gas agrees to institute use of externally-sourced domestic violence training such as training by a local domestic violence program or the Pennsylvania Coalition Against Domestic Violence, for UGI Gas's management and training department. UGI Gas will then institute annual trainings on domestic violence for customer service representatives.

66. UGI Gas will clarify its procedure to reflect that receipt of a valid PFA will prevent a balance transfer into the name of the PFA holder unless that PFA holder is the customer, as defined in the Commission's applicable regulations, for that account.

67. UGI Gas agrees that if a balance is accrued jointly in a PFA plaintiff and third-party's name that the third-party will first be assigned the debt and billed. However, the PFA plaintiff, as the customer, may be held ultimately responsible for that accrued debt if, after 90 days, collection attempts are unsuccessful against the third-party. This process will be implemented with UGI Gas's implementation of a new computer information system ("CIS") anticipated for fall of 2017.

68. UGI Gas agrees to modify its PFA handling procedures to further ensure the confidentiality of PFA information. UGI Gas will:

(a) Discontinue the practice of retaining a pdf copy of the PFA or otherwise applicable order, on UGI Gas's servers. Once UGI Gas has validated that a PFA has not expired, a UGI Gas employee will shred the PFA and UGI Gas will only retain the coded PFA fields on UGI Gas's CIS; and

(b) Limit access to the confidential excel file that tracks PFA expiration data to a work group comprised of three (3) individuals, until planned CIS updates allow for UGI Gas's CIS to track PFA expiration dates.

I. Industrial Intervenor Issues

69. Combined Billing (Proposed Tariff Rule 1.4): UGI Gas will add language permitting consideration of combined billing in instances where a customer owns contiguous properties so long as the economics of the arrangement provide a revenue stream that justifies the arrangement, including any necessary investments by UGI Gas. UGI Gas agrees that it will provide customers with a written explanation regarding its analysis of the arrangement's economics.

70. Facilities and System Access (Rule 2.3):

(a) UGI Gas will revise the introductory phase of Rule 2.3 to read, "Facilities and System Access. Each Customer with a Daily Firm Requirement ("DFR") or peak usage capability of 1,000 MCF per day or greater shall provide UGI Gas with the opportunity to review plans for the

development of all gas facilities to the Customer's premises (including pipelines, mains, service lines and appurtenances), in order to assure safety and reliability, as follows:"

(b) UGI Gas will delete the last sentence of Rule 2.3(a) and will revise Rule 2.3(a) to shorten the notice period from 60 days to 30 days.

(c) UGI Gas will revise Rule 2.3(b) to shorten UGI Gas's review and approval period from 90 days to 45 days and to provide that if UGI Gas fails to respond in writing within the 45 day time period the customer may move forward with its project.

(d) UGI Gas will revise Rule 2.3(c) to read, "If the full 30-day notice required in Rule 2.3(a) is not given by the Customer, then the Customer shall be deemed to have granted UGI Gas full authority to discontinue service upon discovery of any safety or reliability concerns. UGI Gas will provide 24 hours' notice unless there are reliability or safety issues that must be addressed immediately. UGI Gas shall not be liable for any costs or damages caused by such service discontinuance." UGI Gas also agrees to provide all customers with a DFR or peak usage of 1,000 Mcf per day or greater with written notice of this tariff rule change within 30 days of PUC approval.

71. Bypass (Proposed Tariff Rule 2.6): UGI Gas will add tariff language confirming that UGI Gas: (a) will serve customers returning from a total bypass on the same basis as a new customer; (b) will continue to serve the un-bypassed portion of a bypassing customer's load consistent with the terms of any existing service agreement; and (c) will negotiate new service agreements to continue service so-long as the anticipated revenues justify any costs of providing the service. Rule 2.6 will also be modified to provide that the "competitive market conditions" used to develop a customer's negotiated standby charge will reflect the costs of the customer's alternatives.

72. Facilities Ownership (Proposed Tariff Rule 4.1): UGI Gas will work with impacted UGIII members to confirm the ownership status of any facilities in question before UGI Gas may claim ownership. UGI Gas will modify Rule 4.1 to state it applies unless the customer and UGI Gas agree in writing that particular facilities are owned by the customer.

73. Special Utility Service (Proposed Tariff Rule 5.7): UGI Gas will delete this rule so-long as the economic test is preserved for all non-residential line extensions.

74. Obligation to Extend or Expand (Proposed Tariff Rule 5.1): UGI Gas will revise Rule 5.1 to add language that provides that, upon request, UGI Gas will provide customers with a written explanation and reasonable detail of the cost-benefit analysis used to determine if UGI Gas's investment in facilities is warranted including estimated project costs, UGI Gas's maximum allowable investment, and UGI Gas's Annual Base Revenues. Rule 5.1 will also be revised to include language obligating UGI Gas to provide customer with a written time table for the anticipated construction of the upgrade and written notice of completion.

75. Pressure Correction (Proposed Rule 7.3): UGI Gas will revise to state the method for determining the cost of pressure correction devices shall be estimated costs, inclusive of overhead amounts, however, UGI Gas and the customer may negotiate cost responsibility for installation of pressure mechanisms upon mutual agreement.

76. Method of delivering Daily Flow Directive ("DFD") and Operational Flow Orders ("OFO") notices: UGI Gas agrees to deliver DFD and OFO notices via e-mail to customer-supplied e-mail addresses and to prominently post such notices on UGI Gas website. It shall be the customer's responsibility to provide notice to UGI Gas of any e-mail address changes or updates. OFO and DFD notices will include an explanation of the cause of the OFO and DFD.

77. OFO and DFD Definitions: UGI Gas will remove the following language from pages 8-9 of its proposed tariff "including UGI Gas's obligations pursuant to 1307(f) gas procurement activities, but not solely for other economic reasons."

78. Maximum Daily Excess Balancing Charge (Proposed Rule 20.4): UGI Gas will revise the penalty structure that applies on Non-Critical Days to be a maximum of five times the Gas Daily Index for intentional imbalances.

79. Continuity of Service (Proposed Rule 6.5) and Rule 1.5 (Liability and Legal Remedies): UGI Gas will withdraw proposed tariff rule changes regarding continuity of service and limits on liability.

80. Winter Planning Meetings: UGI Gas will commence annual winter planning meetings with its large transportation customers, with meetings to occur on or before October 1 of each year, to discuss system needs for the upcoming winter. UGI Gas will provide its large transportation customers with advance written notice of the annual winter planning meetings and an opportunity to provide input on the meeting agenda. At the meeting scheduled for October 2016, UGI Gas will hold a special training session to explain, answer questions, and obtain comments about UGI Gas's new tariff provisions, including Operational Flow Directive, Daily Flow Directive, Balancing and No-Notice Service tariff provisions.

81. With respect to the concerns regarding the interrelationship among the Operational Flow Directive, Daily Flow Directive, Balancing and No-Notice Service provisions in the proposed UGI Tariff (*i.e.*, Definitions, Rule 20, Rule 20 [sic], and relevant provisions cross-referenced therein), UGI Gas will expand its existing operational and capacity council to address these issues pursuant to 52 Pa. Code § 69.19. The operational and capacity council will convene at least 2 meetings per year until UGI Gas's next base rate proceeding. UGIII members will be invited participants and may be joined by their consultant or legal counsel if they choose to do so. The next meeting of the operational and capacity council will occur by October 31, 2016.

82. UGI Gas will continue to fully support its proposal in the DSIC filing that the DSIC shall be applied equally to all customer classes, except that UGI Gas may reduce or eliminate the Rider DSIC to any customer with competitive alternatives who are paying flexed or discounted rates and customers having negotiated contracts with UGI Gas, if it is reasonably necessary to do so.

J. Competitive Supplier Issues

83. Modified financial security provisions (Choice Tariff Section 8.2): UGI Gas agrees to add back into its tariff the call option method of providing security found in its existing tariff. In addition, UGI Gas agrees to modify its security requirements as follows: (i) the financial security to be provided for each residential Choice customer served by a Choice

supplier shall be \$60 per customer; and (ii) the financial security for each non-residential Choice customer served by a Choice supplier shall be \$94.24/Dth times the Design Day Requirement of the customer; provided, however, UGI Gas and any other interested party reserve their rights to file to change those security levels after the effective date of new rates established in this proceeding if the security levels prove to be unreasonable.

84. Merchant Function Charge (“MFC”): UGI Gas will adjust its Rate N MFC to 0.36% and its Rate N Purchase of Receivables (“POR”) discount to 0.50%.

85. Gas Procurement Charge (“GPC”): UGI Gas will increase the GPC from the proposed level of 1.46 cents to 9.0 cents per Mcf.

86. Customer Choice Switching Fee: UGI Gas will eliminate the switching fee.

87. Monthly Balancing:

(a) By November 1, 2016, UGI Gas shall transfer all XD, LFD and IL customers to calendar month billing and balancing whereby a Natural Gas Supplier (“NGS”) may have one or more pools in the calendar month bill cycle based on “like services” of its customer contracts. For these pools, there will be four possible “like services” combinations: (i) No Notice Service; (ii) No Notice Service with Monthly Balancing Service; (iii) Basic Balancing; and (iv) Basic Balancing with Monthly Balancing Service.

(b) By no later than June 1, 2017, UGI Gas shall make a filing with the Commission that proposes a requirement for all transportation customers under Rates DS and IS to have installed operable AMR/Metretek equipment by a date certain. As part of that proposal, UGI Gas will include: (i) an estimate of the cost of such installed equipment; (ii) a proposed means of recovering the costs of such installations; and (iii) a provision to transfer all Rate DS and IS customers to calendar month billing and balancing pools when all such customers have installed operable AMR/Metretek equipment in a manner consistent with the transfer of Rate XD, LFD, and IL customers described in Paragraph 87(a) above. All Parties reserve the right to participate in and challenge the filing contemplated by this subparagraph. UGI Gas agrees to serve the Parties to this proceeding with a copy of the filing contemplated by this subparagraph at the time of its filing with the Commission.

88. Balancing Charges:

- (a) UGI Gas will reduce the \$50 per Mcf charge to \$25 per Mcf for imbalances that occur on OFO dates.
- (b) For transactions larger than 750 Mcf, UGI Gas will waive the \$125 fee per imbalance trade that is imposed when one pool is out of balance and NGSs arrange a trade with another NGS.
- (c) For transactions larger than 750 Mcf, UGI Gas will waive pool-to-pool transfer fees that are imposed when an NGS is transferring between its own customer pools.

89. Compliance with Standards of Conduct: UGI Gas commits to: (i) informing all NGSs of the availability of any special discounted rates that are offered to its affiliated NGSs; and (ii) revising its training materials to make it clear that UGI Gas employees may not represent that an NGS affiliate or its service is superior to other NGSs.

End Joint Petition Quote

In addition, the Parties have included the standard settlement terms that provide that the Settlement is conditioned upon Commission approval without modification and the parties may withdraw if such approval is not granted; that the Settlement is a compromise and does not necessarily reflect the position of any party regarding any issue; and that Commission approval without modification by the ALJ will result in the parties' waiving exceptions. Joint Petition ¶¶ 94-98.

V. PUBLIC INPUT HEARINGS

Three public input hearings were held in this case. The first two were telephonic live-streamed hearings held in Harrisburg which were open to in-person witnesses as well as those who had signed up in advance.

June 6, 2016 Harrisburg Live-Streamed 1:00 pm

Kay Pickering, Harrisburg, is a full-time counselor for the Harrisburg Center for Peace and Justice (Center) and a UGI ratepayer. She spoke of her experiences with low-income people who come to the Center for assistance. Many leases provide that utility termination for more than 30 days is cause to evict the leaseholder. This rule applies to public and subsidized housing and is increasingly appearing in other residential leases. Most of the families Ms. Pickering works with spend 60 to 80% of their monthly income on rent and utilities. It would be catastrophic for thousands of severely cost-burdened families if this rate hike is granted.

Families come to the Center when they are faced with termination and are unable to negotiate an agreement with UGI. She assists with applications for LIHEAP and CAP programs. She attempts to assist with funding available through the Center or her church, the Harrisburg Friends Meeting, to leverage to keep the gas on or to turn it back on.

She supplied statistics, stating that the total budget for her church for a fiscal year is about \$56,000. In a nine-month period, a total of 103 families were assisted for a total of \$14,037. Twenty-two of these families needed help with their UGI bills, 39 families needed help with their PPL Electric bills, and 42 families received help for either water termination or eviction.

She recounted the story of the family of Robert Douglass, chronicled in *pennlive* on February 25, 2016, who had his gas shut off for nine months because he had an arrearage. He was finally reconnected due to a \$600 payment from LIHEAP, \$400 from a UGI assistance program, and \$200 from Ms. Pickering's church. Another woman identified only as "Mia" has been without gas heat for two years. She was unable to attend the public input hearing because she had to work. A third woman, "Lisa," uses a walker and has been without gas for about 10 months. The Center was unable to come up with a plan that UGI would accept. "Tyisha" has four children and has not been able to get her gas turned on because she could not pay the arrearage accumulated at her three previous residences. This was dire because the Dauphin County Children and Youth Department was threatening to place her children in foster care since she could not supply heat in the house.

Ms. Pickering testified that the Center is often the last resort. The Center has no city, state or federal funding, but they make a real difference in the lives of families who have no heat, hot water, and no place to cook a meal. She asks that the Commission deny the rate increase, because her office is already stretched to its limits.

In response to questions from CAUSE-PA attorney, Ms. Marx, Ms. Pickering testified that quite a few of the customers who come to her do not read and write, which creates difficulties when they attempt to apply for CAP programs. Tr. 50-56.

Tara Zrinski, Adjunct Professor of Philosophy at Northampton County Community College and current UGI customer, appeared. She thanked the Commission for providing an opportunity to speak and indicated that she would like more energy opportunities. She presented a petition comprised of names and addresses or email addresses of people from all over the world purportedly opposing the proposed rate hike. She believes that if UGI has financial resources to expand its customer base for profit, it should have the financial resources to replace and maintain current infrastructure lines and ensure current consumer safety.

She urges the Commission to deny the proposed increase and to remove roadblocks and support renewable energy production to provide choices to consumers so that we can look forward to a day that we are not dependent upon fossil fuels that are not only destructive to our environment but pose risks to human health, safety and property. Ms. Zrinski demands the denial of the requested increase and urges the Commission to remove roadblocks and support renewable energy production to provide choices to consumers which do not rely upon fossil fuels and provided a 109 page document containing approximately 1200 names and addresses.⁷ Tr. 57-61.

Brandon Fogal, retail manager at Skirmish USA in Jim Thorpe, testified that he is a UGI customer who is following the progress of the PennEast pipeline project. While UGI is

⁷ The document submitted has approximately 1200 names and addresses attached, 383 of which are located in Pennsylvania and, at first blush, at least one-quarter of those are not located in UGI's service territory. The document is a listing of names and addresses with the occasional comment. No signatures were included.

telling the Commission that the projected usage of natural gas is decreasing, the same corporation is a lead partner in the PennEast Pipeline and is telling the Federal Energy Regulatory Commission that their pipeline is needed to increase local natural gas supplies into the future. He is concerned that the pipeline will be built under false pretenses, that domestic gas will be exported to a foreign market at no benefit to the communities that have been disrupted, and that the pipeline will be paid for with the increase sought in this case.

Mr. Fogal is also concerned that the residential rate is increasing by about 19.7% while the commercial rate is being raised 7.4%. This structure seems to reward higher usage instead of providing an incentive to reduce usage. Tr. 62-65.

Linda Christman, retired and living in Carbon County, Towamensing Township, testified that she is not a UGI customer but wished to speak on behalf of the public good. She expressed her disapproval that so little of the pipes in Carbon County have been replaced when too many have been replaced elsewhere. Tr. 66-69.

William L. Ludwig, retired and living in Robesonia, Pennsylvania, testified that he and his wife are retired senior citizens on a fixed income. He stated that his gas bill seems to be abnormally high and his pension and social security will make payment difficult. Tr. 70-73. (Following the hearing, a UGI customer service representative contacted Mr. Ludwig and determined that he was eligible for weatherization.)

March 31, 2016, 6:00 pm, Harrisburg Live-Streamed Hearing

No witnesses signed up in advance for this hearing, and no witnesses attended.

April 4, 2016, Allentown

Steve Narracci, retired state worker from Nazareth, Pennsylvania, testified that he does volunteer work for AARP, an organization with 1.8 million members in Pennsylvania. The proposed rate increase would impact those members in UGI's service territory because they are older and on fixed incomes. He remarked that it is ironic that at a time when energy costs are

going down that UGI would seek a rate increase which would cost customers approximately \$120 per year. While AARP members expect to pay a fair price for gas, and they recognize that the overall cost of providing natural gas service includes infrastructure maintenance and the costs of operating the company, they do not feel that this increase is justified. The increasing cost of doing business is often cited as a reason for a rate increase, older consumers are not seeing an increase in resources that would enable them to pay for the increase. Older Pennsylvanians are facing higher costs in health care, transportation, and utilities, none of which are luxuries. AARP members understand what it is to live within a budget, but excessive increases in utility rates have the potential to break any family's budget. Their ability to stay in their homes is threatened by rising costs.

Mr. Narracci testified that improving infrastructure for safety reasons is important but he believes that funding for system improvements and operations is already built into the present rate structure. A 19% rate increase would indicate that dramatic and urgent upgrades were necessary to maintain safe and reliable natural gas service. If that is the case, then UGI shareholders should be expected to shoulder an equal burden of the increased costs, yet UGI's stock price has increased dramatically over the past four years, and the Company has issued a dividend for 28 consecutive years. While having no objection to a company making a profit, it should not be on the backs of consumers for whom a 19% increase would impose a significant financial burden. Mr. Narracci urges the Commission to lower the increase to reflect the economic realities of the citizens it impacts. Tr. 100-104.

Mr. Ed Ryan agreed with Mr. Narracci's statement and declined to add anything. Tr. 104.

Mary Jane Long, retired, lives in Easton, Pennsylvania. She sits on the Pennsylvania Council on Aging, the Northampton County Council on Aging, and is a member of the Southeast Regional Council on Aging. She stated that so many of our seniors in Pennsylvania are not making the \$5,793,439 salary that UGI CEO John Walsh earns, with a stock award of \$3,794,430. Many are lucky if they earn \$25,000 a year. They are having trouble staying in their homes and paying for medications. A rate increase like this one is indicative of a lack of cost-effective management at UGI. She did not understand how UGI could work within its

budget since 1995 and suddenly they need a 19% increase. All those years of bad management should not be the problem of the consumer. Tr. 105-106.

VI. DISCUSSION

Description of the Rate Increase Request

UGI Gas is requesting an increase in its annual base rate operating revenues of \$58.6 million, or 17.5% on a total revenue basis, based upon a fully projected future test year ending September 30, 2017. The Company also proposes substantial changes to its existing tariff to harmonize the UGI Gas tariff with those previously approved by the Commission for UGI Central Penn Gas (CPG) and Pennsylvania Natural Gas (PNG). UGI Gas Stmt. No. 1 at 5.

The proposal includes a new five-year energy conservation program (EE&C) to promote the efficient use of natural gas, and a Technology and Economic Development (TED) Rider to provide rate flexibility needed to encourage developing technologies and to address competitive conditions and customer preferences in seeking to expand the availability and use of natural gas. UGI Gas Stmt. No. 1 at 5.

Since the last rate case in 1995, UGI Gas has made over \$1 billion in system investments, increasing the Company's rate base by over 120%. The investments were made in order to serve new customers, to accelerate the replacement of aging gas plant infrastructure, to upgrade and improve system segments, to modernize facilities, and to install and upgrade supporting information technology. The Company has experienced increases in salaries and benefits and other increases in costs for the products and services necessary to operate. UGI Gas Stmt. No. 1 at 5- 6.

The Company's operations are projected to produce an overall return on rate base of 4.52%, which is a return on common equity of only 4.30% for the twelve months ending September 30, 2017. UGI Gas Stmt. No. 1 at 6; UGI Gas Exhibit A, Schedule A-1.

The UGI-1 initiative is a Company-wide improvement initiative focusing on people, tools and processes. UGI Gas Stmt. No. 1 at 11. The Company's goal is to place all operations on the same common set of information systems, tools, equipment, and uniform work management and performance platforms. UGI Gas Stmt. No. 1 at 13. The UGI-1 initiative includes UNITE technology improvement project; UGI's "Making a Difference" safety improvement program; the migration of all employee computer workstations to a set of common workplace applications; the migration of all field employees to a single set of gas operations and construction processes and specifications; UGI building and grounds improvements and renovations; UGI's natural gas pipeline facility extension and betterment programs; enhances focus on physical and cyber security; and a range of enhanced and expanded employee development and training programs. UGI Gas Stmt. No. 1 at 12.

Over the last three years, UGI Gas has added over 14,000 new residential heating and 2,000 new commercial customers annually. UGI Gas Stmt. No. 1 at 15.

Current UGI Gas residential distribution rates are the lowest in the Commonwealth, and even at the proposed rates, the average monthly bill for a residential heating customer will be 3.2% lower today than the average bill following the last base rate case in 1995. UGI Gas Stmt. No. 1 at 29.

A. Legal Standards

In deciding this or any other general rate increase case brought under Section 1308(d) of the Public Utility Code (Code), 66 Pa.C.S. § 1308(d), certain general principles always apply. A public utility is entitled to an opportunity to earn a fair rate of return on the value of the property dedicated to public service. *Pa. Pub. Util. Comm'n v. Pennsylvania Gas and Water Co.* 341 A.2d 239, 251 (Pa.Cmwlt. 1975). In determining a fair rate of return, the Commission is guided by the criteria provided by the United States Supreme Court in the landmark cases of *Bluefield Water Works and Improvement Co. v. Public Service Comm'n of West Virginia*, 262 U.S. 679 (1923) (*Bluefield*) and *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591 (1944). In *Bluefield*, the Court stated:

A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.

Bluefield, 262 U.S. at 692-693.

The burden of proof to establish the justness and reasonableness of every element of a public utility's rate increase request rests solely upon the public utility in all proceedings filed under Section 1308(d) of the Code. The standard to be met by the public utility is set forth in Section 315(a) of the Code, 66 Pa.C.S. § 315(a), as follows:

Reasonableness of rates. – In any proceeding upon the motion of the commission, involving any proposed or existing rate of any public utility, or in any proceedings upon complaint involving any proposed increase in rates, the burden of proof to show that the rate involved is just and reasonable shall be upon the public utility.

In reviewing Section 315(a) of the Code, the Pennsylvania Commonwealth Court interpreted a public utility's burden of proof in a rate proceeding as follows:

Section 315(a) of the Public Utility Code, 66 Pa.C.S. § 315(a), places the burden of proving the justness and reasonableness of a proposed rate hike squarely on the public utility. *It is well-established that the evidence adduced by a utility to meet this burden must be substantial.*

Lower Frederick Twp. Water Co. v. Pa. Pub. Util. Comm'n, 409 A.2d 505, 507 (Pa.Cmwlth. 1980) (emphasis added). *See also, Brockway Glass Co. v. Pa. Pub. Util. Comm'n*, 437 A.2d 1067 (Pa.Cmwlth. 1981).

In general rate increase proceedings, the burden of proof does not shift to parties challenging a requested rate increase. Rather, the utility's burden of establishing the justness and reasonableness of every component of its rate request is an affirmative one, and that burden remains with the public utility throughout the course of the rate proceeding.

There is no similar burden placed on parties to justify a proposed adjustment to the Company's filing. The Pennsylvania Supreme Court has held:

[T]he appellants did not have the burden of proving that the plant additions were improper, unnecessary or too costly; on the contrary, that burden is, by statute, on the utility to demonstrate the reasonable necessity and cost of the installations, and that is the burden which the utility patently failed to carry.

Berner v. Pa. Pub. Util. Comm'n, 382 Pa. 622, 631, 116 A.2d 738, 744 (1955).

This does not mean, however, that in proving that its proposed rates are just and reasonable, a public utility must affirmatively defend every claim it has made in its filing, even those which no other party has questioned. As the Pennsylvania Commonwealth Court has held:

While it is axiomatic that a utility has the burden of proving the justness and reasonableness of its proposed rates, it cannot be called upon to account for every action absent prior notice that such action is to be challenged.

Allegheny Center Assocs. v. Pa. Pub. Util. Comm'n, 570 A.2d 149, 153 (Pa.Cmwlth. 1990) (citation omitted). *See also, Pa. Pub. Util. Comm'n. v. Equitable Gas Co.*, 73 Pa. P.U.C. 310, 359-360 (1990).

Section 523 of the Public Utility Code, 66 Pa.C.S. § 523, requires the Commission to “consider . . . the efficiency, effectiveness and adequacy of service of each utility when determining just and reasonable rates. . . .” In exchange for customers paying rates for service, which include the cost of utility plant in service and a rate of return, a public utility is obligated to provide safe, adequate and reasonable service. “[I]n exchange for the utility's

provision of safe, adequate and reasonable service, the ratepayers are obligated to pay rates which cover the cost of service which includes reasonable operation and maintenance expenses, depreciation, taxes and a fair rate of return for the utility's investors . . . In return for providing safe and adequate service, the utility is entitled to recover, through rates, these enumerated costs." *Pa. Pub. Util. Comm'n v. Pennsylvania Gas & Water Co.*, 61 Pa. PUC 409, 415-16 (1986); 66 Pa.C.S. § 1501. Accordingly, the General Assembly has given the Commission discretionary authority to deny a proposed rate increase, in whole or in part, if the Commission finds "that the service rendered by the public utility is inadequate." 66 Pa.C.S. § 526(a).

In analyzing a proposed general rate increase, the Commission determines a rate of return to be applied to a rate base measured by the aggregate value of all the utility's property used and useful in the public service. The Commission determines a proper rate of return by calculating the utility's capital structure and the cost of the different types of capital during the period in issue. The Commission is granted wide discretion, because of its administrative expertise, in determining the cost of capital. *Equitable Gas Co. v. Pa. Pub. Util. Comm'n*, 405 A.2d 1055, 1059 (Pa. Cmwlth. 1979) (determination of cost of capital is basically a matter of judgment which should be left to the regulatory agency and not disturbed absent an abuse of discretion).

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. Pub. Util. Comm'n 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. Pub. Util. Comm'n v. Windstream Pennsylvania, LLC*, Docket No. M-2012-2227108, 2012 Pa. PUC LEXIS 1535 (Opinion and Order entered Sept. 27, 2012); *Pa. Pub. Util. Comm'n v. C.S. Water and Sewer Assoc.*, Docket No. R-881147, 74 Pa. PUC 767 (Opinion entered July 22, 1991).

UGI Stmt. in Support at 2.

The public interest is best served by a settlement which meets the legal standard applicable to the case in which the settlement is filed.

1. Black Box Revenue Requirement

The parties agreed to allow the Company an annual distribution revenue increase of \$27 million. Settlement ¶ 17. The "black box" concept is to permit the parties to come to agreement on a revenue increase without specifying rate base, revenues and expenses and return that are allowed or disallowed. The items claimed in the Company's initial filing and supporting testimony do not serve as precedent for the treatment of the claims for future cases. The Black Box allows a negotiated settlement without any of the parties abandoning or reversing positions on issues.

The Commission encourages settlements and has a well-established acceptance of black box settlements. *See Pa. Pub. Util. Comm'n v. Aqua Pennsylvania, Inc.*, Docket No. R-2011-2267958 (Order entered June 7, 2012); *Pa. Pub. Util. Comm'n v. Peoples TWP LLC*, Docket No. R-013-2355886 (Order entered Dec. 19, 2013).

The parties have thoroughly investigated the UGI filing. The Company states that in addition to informal discovery, it responded to over 1,000 formal discovery requests, many with subparts. The active parties filed four rounds of testimony and participated in numerous settlement discussions and negotiations. The parties to this case include all three public advocates, who are charged with protecting the interests of residential ratepayers (OCA), commercial ratepayers (OSBA), and the public interest (I&E). The large industrial interests are represented by UGIII, the suppliers by the NGS parties, and low-income customers by CEO and CAUSE-PA. When this diverse group of litigants can come to an agreement, with all affected customers represented, then the interests of the ratepayers are well-protected.

That some degree of rate increase is justified is not surprising as UGI filed its last base rate case in 1995. Since that time, UGI points out that a number of occurrences have contributed to its present need for revenue increase, including: a decline in natural gas prices, increased costs of providing gas, increasing the rate base by over 120% by system investments topping \$1 billion, increases to the capital replacement and betterment program, new information technology system, expansion of service to unserved and underserved areas of the

Commonwealth, increased costs for supplies, wages, and number of employees, and a reduction in average customer usage. UGI Stmt. in Support at 4-5.

UGI projected that, without rate relief, its return on common equity would fall to approximately 4.30% by September 30, 2017. This would prevent UGI from obtaining capital on reasonable terms to finance infrastructure improvements necessary to maintain reliable service. UGI Stmt. in Support at 5.

UGI notes further that it had requested a revenue increase of \$58.6 million, which included a proposed return on equity of 11.0%; I&E recommended a revenue requirement decrease of approximately \$18.6 million with a return on equity of 8.90%; OCA recommended a revenue requirement decrease of approximately \$27.1 million with a return on equity of 9.15%; and that the Settlement amount falls within the range of litigation positions of these parties. UGI Stmt. in Support at 6-7.

2. Exceptions to the Black Box

a. Transportation, Excess Take, and Rate N Minimum Bills

In its original filing, UGI proposed to eliminate: Pooling Fees, System Access Fees, Information Service Fees, as well as the revenues from Excess Take penalties and the Rate N minimum bill requirements. Because these would not be included in the FPFTY, the FPFTY revenues were adjusted to remove these fees and requirements.

As part of the Settlement, the proof of revenue includes \$2.348 million of additional revenues for deleted charges in present rate revenue. UGI submits that this properly recognizes that these revenues are in current rates but will not be in the FPFTY settlement rates. This is consistent with the use of the test year and will reflect conditions in place during the period when the rates will be in effect. UGI Stmt. in Support at 7.

b. Interruptible Revenue

UGI explains that it provides interruptible service to approximately 320 customers comprising over 40 percent of the system's throughput, under contracts with rates based on the alternatives available to the customers (i.e., alternate fuel option, alternative natural gas solution, etc.). UGI's proposal was to continue past practice by charging interruptible service customers the value of service prices and retaining or absorbing any difference between cost of service and value of service pricing between rate cases. I&E and OCA disagreed with the UGI approach and proposed to apply alternative cost of service principles to determine the costs of service for interruptible customers and estimated test-year interruptible revenues based on historical levels. I&E Stmt. 5 at 19; OCA Stmts. 1 at 19-20 and 3 at 7-8.

The Settlement resolves differences by providing that the proof of revenue shall include a total of \$19.356 million of interruptible revenue in present rates and \$18.996 million of revenue for settlement rates. UGI Stmt. in Support at 8. This is a reasonable compromise and falls within the range of litigated positions.

c. Environmental Remediation

The UGI filing includes a claim for \$3 million for environmental remediation expense based on its plan to spend \$3-\$5 million per year for remediation of manufactured gas plant (MGP) sites.

OCA recommended eliminating the entire claim, while I&E recommended that it be reduced to \$0.5 million based on the historical level of expense. OCA Stmt. 1 at 22; I&E Stmt. 2 at 28-29.

UGI countered that it had entered into a consent order agreement with the Pennsylvania Department of Environmental Protection (DEP) on May 6, 2016, which requires UGI to incur \$2.5 million per year beginning October 1, 2016, to remediate a number of former MGP sites that were used to render service to UGI's customers when those plants operated.

The Settlement provides an annual expense amount of \$2.0 million for environmental costs to remediate the MGP sites. Settlement ¶20. In addition, any annual

differences between \$2.0 million and actual expenditures will be deferred as a regulatory asset or liability, subject to recovery or refund in future base rate proceedings.

UGI promotes the Settlement term because it is consistent with the consent order agreement with DEP and the cost recovery mechanism will align the recovery of such expenses with the method of cost recovery previously adopted for UGI affiliates UGI CPG and UGI PNG. It should also protect customers from over-recoveries and UGI from under-recoveries for this category of expense. UGI Stmt. in Support at 9-10.

d. Billing Determinants

In its filing, UGI annualized sales by developing sales and revenue adjustments which it believed to be reflective of projected customer counts and annual expected usage per customer as of September 30, 2017. Usage per customer was projected based on a twenty-one year regression analysis of actual usage and degree day information for the period from January 1995 through September 2015. UGI Stmt. in Support at 10.

I&E and OCA recommended alternative methods.

The Settlement represents the agreement of the parties to specific usage per customer and customer class billing determinants. These reflect a decline in usage and are within the range of billing determinants recommended by the parties. UGI Stmt. in Support at 10; Settlement ¶21.

This Settlement provision represents a compromise of competing positions to establish a reasonable projection of future usage.

e. Repairs Allowance

UGI's filing 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, as it has done since adoption of the repairs allowance in 2009. UGI Stmt. in Support at 11.

OCA challenged this approach but agreed that the repairs allowance should be normalized with a corresponding increase in Accumulated Deferred Income Taxes and a related reduction to UGI's rate base. Settlement ¶ 22. Normalization results in the benefit to customers of a repairs allowance deduction through rate base over the life of the plant giving rise to the deductions regardless of when the Company files a base rate case. UGI promotes it as an important source of cash flow to UGI that can be used to support UGI's large, related capital spending program and reduce outside borrowing. UGI Stmt. in Support at 11.

f. Accumulated Deferred Income Taxes

Settlement ¶23 provides that the UGI ADIT pro-ratoning methodology is adopted. UGI states:

In its rebuttal testimony, UGI Gas included a FPPTY accumulated deferred income taxes ("ADIT") pro-rata calculation required under Treasury Regulation 1.167(l)-1(h)(6)(ii) that is necessary to be in compliance with Internal Revenue Service ("IRS") normalization requirements. (UGI Gas St. 10-R, p.2) In the Settlement, the Joint Petitioners agreed to the ADIT pro-ratoning methodology. (Settlement ¶ 23) This Settlement provision is in the public interest because it ensures compliance with IRS normalization requirements. Additionally, it is in line with other public utility FPPTY presentations, including that of Columbia Gas of Pennsylvania and PPL Electric Utilities Corporation. (UGI Gas St. 10-R, p.2).

UGI Stmt. in Support at 12.

No party opposed this, and it is in the public interest for the reasons stated above.

g. Rate Base

UGI states that it based its rate base claim on the sum of the closing plant balances as of September 30, 2015 (HTY), plus the budgeted plant additions for the years ending September 30, 2016 (FTY), and September 30, 2017 (i.e., the FPFTY), less budgeted FTY and FPFTY plant retirements. The claim was an end-of-test-year rate base for the FPFTY. UGI Stmt. in Support at 12.

OCA recommended an average FPFTY rate base and a reduction in annual depreciation expense based on the use of the average balances of FPFTY depreciable plant in service. OCA Stmt. 1 at 8-10.

In the Settlement, the parties accepted UGI's as-filed end-of-year FPFTY rate Base. Settlement ¶ 27. UGI points out that this is consistent with existing Pennsylvania practice and the plain language of Section 315(e) of the Public Utility Code, which provides that a fully projected future test year is the 12-month period beginning with the first month that the new rates will be placed in effect. 66 Pa.C.S. § 315(e). UGI also avers that this method avoids complications with income tax calculations and UGI Gas' ability to effectively and efficiently use the Distribution System Improvement Charge (DSIC). However, UGI will submit updates to reflect actual capital expenditures, plant additions, and retirements at the end of the FTY and FPFTY. Settlement ¶ 24; UGI Stmt. in Support at 12-13.

The agreed-upon methodology is in the public interest as it will aid the Commission in reviewing UGI's actual and budgeted capital expenditures for the FTY and FPFTY and the appropriate level of DSIC-eligible plant that UGI Gas will recover in the future through an approved DSIC surcharge mechanism.

h. UGI Gas' Next Information Technology Enterprise

UGI explains that its Next Information Technology Enterprise (UNITE) is a multi-phased, multi-year project designed to replace and update UGI's core, non-financial computer systems including the Customer Information System (CIS), Work Management System, Asset Management System and Mobile Data Management System. Phase I includes the development and implementation of a new CIS to replace the two legacy mainframe CIS systems that will be in place and in service before the end of the FPFTY. Phases 2 and 3 will not be placed in service until after the FPFTY. UGI Stmt. in Support at 13.

Capital costs for Phase I of UNITE is expected to be \$88.1 million, and \$43 million of it is allocated to UGI Gas. Annual maintenance costs will be \$1.76 million, and UGI Gas is allocated \$859,000. UGI states:

There are additional preliminary stage and business reengineering costs that were incurred in 2014 and 2015 and are expected to be incurred in 2016, which will also be included in plant additions. The preliminary-stage project costs and business technology reengineering costs for the UNITE Program are recorded as an expense under US GAAP, but fit into the definition of costs that should be capitalized once placed in service. In its initial filing, UGI Gas claimed a total of \$6.7 million for these preliminary stage and business reengineering costs, of which \$3.1 million was allocated to UGI Gas as plant additions. (UGI Gas St. 2, p. 32) In its rebuttal testimony, UGI Gas refined the level of costs which are properly capitalized under the FERC Uniform System of Accounts. The revised total amount of these costs is anticipated to be \$9.9 million for the new CIS project, of which \$4.8 million will be allocated to UGI Gas. (UGI Gas St. 2-R, p.7)

No Parties opposed the UNITE Program or otherwise challenged the costs claimed in this proceeding for Phase 1 of the UNITE Program. In the Settlement, the Joint Petitioners agree that UGI Gas's accounting treatment for UNITE as explained above and in UGI Gas St. 2 and 2-R should be adopted. (Settlement ¶ 25)

UGI Stmt. in Support at 14.

The accounting treatment as described above and unopposed is consistent with applicable law and is in the public interest.

i. Other Post-Employment Benefits Refund

UGI explains that, since its last base rate case in 1995, it has accumulated an Other Post-Employment Benefits (OPEB) over-collection in the amount of \$10.027 million, which it has proposed to return to customers over 20 years, or \$0.501 million annually. UGI Stmt. in Support at 14-15.

The Settlement provides that the OPEB credit balance should be \$10.027 million and should be amortized using a 10-year schedule. Settlement ¶ 26. The parties aver that this is a reasonable compromise of competing litigation positions that ensures the over-collection is refunded to customers over a reasonable period without penalizing UGI for its adoption of Statement of Financial Accounting Standards (SFAS) 106 in 1993. UGI Stmt. in Support at 15.

j. Distribution System Improvement Charge

Paragraph 28 of the Settlement provides that UGI will be eligible to include plant additions in the DSIC once DSIC-eligible account balances exceed the levels projected by UGI Gas at September 30, 2017. Settlement ¶ 28. UGI states that this is to ensure that UGI is able to timely recover the reasonable and prudent capital costs incurred to repair, improve, or replace its aging distribution infrastructure plant between rate cases. As this provision provides safety and reliability benefits, it is in the public interest. UGI Stmt. in Support at 15-16.

k. Technology and Economic Development Rider

The proposed TED Rider reads:

Availability. The Technology and Economic Development Rider ("TED") is a negotiated rider available in the entire territory to Customers served by the Company which the Company determines, in its sole discretion, has prospective additional gas

usage applicable to service under Tariff Rate Schedules N, NT, DS or LFD at the time of execution or renewal of a Service Agreement. The Rider TED is established for the purpose of adjusting the customer's overall distribution charge to address project specific or competitive issues to gain access to and expand use of natural gas within the Commonwealth of Pennsylvania. The negotiated Rider TED may be either a surcharge or credit depending on project specific customer and Company economic requirements, such that the overall economics must meet the requirements of Section 5.1 of this Tariff. Rider TED will be utilized to support the expansion of new technologies such as combined heat and power and natural gas vehicles, develop brownfields, and support economic development in Pennsylvania by facilitating business retention and attraction as well as other gas distribution system expansion activities.

General Terms. The Customer must execute a Rider TED service agreement.

MONTHLY RATE TABLE

Monthly Charge: Negotiable.

Plus

Charge per Mcf: Negotiable.

Joint Petition for Settlement – Appendix A at p. 48.

Under Settlement Paragraph 36, the TED Rider is approved as a three-year program. UGI must modify the above language to include language ensuring that the overall economics of the arrangement with the customer receiving the TED Rider must meet the economic tests applicable to line extensions. In addition, UGI must maintain records and report on the economics of the program six months before the pilot period ends. In the event that UGI files a base rate case before that time, UGI must include the pro forma rate of return on incremental investment for TED Rider customers as a sub-class in its filed cost of service study.

OCA opposed the program as filed and agrees to it now with the negotiated conditions in place because they provide reasonable assurance that the mains extensions and discounted rates provided will not result in other customers' subsidizing the projects. In fact, OCA states that it should promote the expansion of natural gas to commercial and industrial customers in unserved and underserved areas. OCA Stmt. in Support at 13.

OSBA opposed the program as filed because it appeared to be "unduly discriminatory and does not contain reasonable economic and competitive protections for existing customers." OSBA Stmt. 1 at 36; OSBA Stmt. in Support at 8. OSBA states:

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*.
OSBA Stmt. in Support at 8-9.

A discussion of the TED Rider provision of Settlement Paragraph 36 is curiously absent from the UGI Statement in Support. In testimony, UGI Witness Stoyko stated:

. . . the TED Rider projects would be evaluated using the same economic tests that have been applied to UGI Gas's new business extension tariff. That test requires anticipated revenues, at a minimum, to be sufficient to justify the anticipated investment. This means that each project will have to stand on its own economic merits and should not result in any cross subsidization by existing customers, which very well could lead to benefits for such customers.

In theory, a small percentage of projects involving use of a TED Rider could involve a customer who becomes bankrupt or insolvent before anticipated revenues used to determine the economic viability of the project, and not guaranteed through the provision of financial security, are received. However, the exact same risk applies where investments are made where no up-front

CIAC [contribution in aid of construction] payments are required under UGI Gas's tariff due to the anticipated distribution revenues that alone justify the investment. Such remote and speculative possibilities should not be a basis for rejecting the proposed TED Rider and its promise of being able to attract incremental economic customer loads which would not otherwise be served.

A far more likely possibility is that incremental customer loads made possible by the flexibility the TED Rider will provide the needed response to individual customer circumstances that will provide some incremental contribution to shared system costs to the benefit of existing customers. The TED Rider will only apply to an initial specified term, and the customer would thereafter pay the applicable tariff rate without the TED Rider adjustment.

UGI Stmt. 7-R at 9-10.

As the parties are satisfied that the TED Rider is encumbered with sufficient requirements to protect the UGI ratepayers from cross-subsidization or abuses, including full reporting on its application, the three-year pilot is in the public interest.

l. Energy Efficiency and Conservation Plan

Paragraph 29 of the Settlement states that the \$27 million increase includes \$2.659 million for the first year spending of UGI's EE&C plan discussed below.

m. Depreciation Rates

In its filing, UGI claimed a depreciation expense of \$41.516 million. UGI Gas Exhibits C (Historic), C (Future), and C (Fully Projected).

OCA proposed to reduce the total by \$7.8 million by increasing the service lives for 14 distribution plants and by changing the depreciation calculation procedure. OCA Stmt. 5.

As UGI Gas's LTIP includes plans to replace all cast iron mains within 14 years and all bare steel mains within 29 years beginning March 2013, OCA's recommendation to increase the service lives is not consistent. The parties recognize this and the Settlement adopts

UGI's as-filed depreciation rates. Settlement ¶ 30. This provision is reasonable and in the public interest.

B. Revenue Allocation and Rate Design

1. Revenue Allocation

UGI performed class cost of service studies to allocate proposed total jurisdictional revenue to each of the retail customer classes. The Company proposed moving all rate classes closer to the overall system rate of return, consistent with case law requiring such a move. *Lloyd, supra*. Consequently, UGI averaged two class cost of service studies to develop its proposal.

The parties presented widely diverse recommendations regarding revenue allocation.

I&E promoted the use of UGI's cost of service study in UGI Gas Exhibit D, Schedule C. I&E Stmt. 5 at 22-23.

OCA points out that the original UGI proposal allocated approximately \$43 million of its proposed \$58.56 million revenue increase to residential customers. Under the Settlement, the residential class is assessed approximately \$19 million of the \$27 million increase, which is far more acceptable. OCA states that this compromise is within the range of likely outcomes had the matter not been settled. OCA avers that this is a just and reasonable result. OCA Stmt. in Support at 7.

OSBA took the position that the residential class was heavily subsidized while the interruptible class had a negative rate of return. In fact, OSBA Witness Knecht stated that the N/NT, DS, LFD and XD classes all provide significant cross-subsidies to the R/RT and IS classes. OSBA Stmt. 1 at 28-29; OSBA Stmt. in Support at 4. Accordingly, the primary goal should be to reduce the subsidy provided to the residential class. The XD rate class contains the large customers with negotiated rates, and therefore, no portion of the rate increase should be

assigned to this class. The N/NT, DS, and LFD classes would be assigned a rate increase which would reduce the subsidies that these classes provide to the residential class. OSBA states:

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*.
OSBA Stmt. in Support at 6-7.

The resolution of this issue required significant effort and compromise by the Parties that submitted testimony on revenue allocation issues. The revenue allocation under the Settlement moves all classes closer to the system average return. Given these considerations, UGI 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.
UGI Stmt. in Support at 20.

UGI points out that the Commission is not required to adopt a single cost of service study or to strictly allocate revenues according to the study's results. *Executone of Philadelphia, Inc. v. Pa. Pub. Util. Comm'n*, 415 A.2d 445 (Pa.Cmwlth. 1980); *see also Peoples natural Gas Co. v. Pa. Pub. Util. Comm'n*, 409 A.2d 446 (Pa.Cmwlth. 1979); UGI Stmt. in Support at 20-21.

The Commission's considerable discretion in setting rates permits approval of a compromise which, as it moves the rate classes closer to the cost of service for each, is just and reasonable. Accordingly, this provision is in the public interest.

2. Rate Design⁸

As UGI explains, the primary objective of its proposed rate design was to develop rate schedules that would produce the requested revenues when applied to forecasted conditions for the FPFTY. UGI's proposal was intended to continue movement toward distribution rates that are more reflective of how costs are incurred and to be competitive with prices of competing alternate energy sources, including physical bypass of UGI Gas's system. UGI Stmt. in Support at 22.

Another issue in the Rate R/RT schedule is UGI's proposal to eliminate the declining block structure with a single block volumetric charge. OCA supported this proposal while I&E recommended not only retaining it but increasing it.

The Settlement eliminates the declining block design in Rate Schedules R/RT and N/NT, which UGI avers will simplify customer bills, and incentivize conservation. Settlement ¶34(a); UGI Stmt. in Support at 23.

a. Rate R/RT Rate Design

UGI's proposal for Rate R customer-class customer was a customer charge of \$17.50 per month, a substantial increase from the current charge of \$8.55 per month. I&E, OCA, and CAUSE-PA all opposed this proposal.

I&E relied upon one of the three cost of service studies performed by UGI to determine its own recommendation. As I&E explains, the Average Extra and Demand Method allocated mains to the interruptible class on the basis of average daily volumes, while the second method did not allocate mains to interruptible customers with one exception. The third study was an average of the first two studies, which is method chosen by the Company to support its

⁸ Rate schedules affected are: R – General Service, Residential; RT – General Service, Residential Transportation; N – General Service – Non-Residential; NT – General Service – Non-Residential Transportation; DS – Delivery Service; LFD – Large Firm Delivery Service; XD – Extended Large Firm Delivery Service; and IS – Interruptible Service.

proposals. I&E advocates the first study because it properly allocates main investment to the Interruptible class. However, this method resulted in customer charges of \$17.63 for residential class customers and \$14.00 for commercial, which I&E avers violates the principle of gradualism.

I&E supports the Settlement numbers agreed upon which it states maintains the proper balance of the interests of the parties, effectively moderates the increases initially proposed by the Company, and represents a full and fair compromise of all revenue allocation and rate design related issues raised by the parties. I&E Stmt. in Support at 12-13.

OCA notes that the original UGI proposal was to increase the residential customer charge from \$8.55 per month to \$17.50 per month for an increase of approximately 105%. OCA opposed this level and countered with its recommendation of an increase of no more than \$11.25 to avoid rate shock. OCA Stmt. in Support at 7-8.

Despite differing views and recommendations, the parties agreed upon a customer charge for the Rate R/RT customer class at \$11.75 per month. Settlement ¶33(a).

Under the Settlement, the increase in the fixed monthly charge for residential customers is \$3.20, up from the current \$8.55 charge to \$11.75. Ultimately, CAUSE-PA supports the reduction from the proposed charge as the rate increase does not: (1) fall disproportionately on low-income residents; or (2) undermine ratepayer investments in energy efficiency and weatherization through the Low Income Usage Reduction Program (LIURP) which is designed to reduce the energy burden for low-income customers. CAUSE-PA Stmt. in Support at 3.

This represents a reasonable compromise of competing litigation positions which is still within the range proposed by the parties.

b. Rate N/NT Rate Design

UGI's filing proposed to raise the current customer class charge of \$8.55 per month to \$32.00 per month along with the elimination of the declining block design. I&E and OSBA opposed the proposal.

OSBA recommended that the Rate N/NT customer charge be set at a maximum of \$20.00, and the *Joint Petition* adopts a customer charge of \$16.00 plus elimination of the declining block charge. OSBA stated that the value is reasonably consistent with its recommendation and therefore supports it.

c. Rates DS and LFD

The Settlement consolidates the current declining block structure to two block design (500 Mcf interval). Settlement ¶34(c), (d). This represents a compromise between the UGI proposal to maintain current monthly charges and to replace the current declining block structures with single block volumetric charges. OSBA expressed concerns regarding customer migration to another schedule, and I&E recommended moving to a two block structure to reduce rate shock for these customers. The Settlement retains the current monthly customer charges and adopts a two block rate design. The parties submit that this is a reasonable compromise of competing litigation positions. UGI Stmt. in Support at 25.

C. Energy Efficiency and Conservation Plan

UGI proposed a voluntary, five-year EE&C Plan to offer energy efficiency programs and a Combined Heat and Power (CHP) Program to reduce customers' energy consumption. The programs are designed to be cost-effective on a Total Resource Cost (TRC) basis, with benefit-cost-ratios (BCRs) of 1.76 and 1.60 respectively. UGI Stmt. in Support at 25-26.

OCA agreed that the programs are cost-effective on a TRC basis and comparable to other conservation programs offered by NGDCs in other states. OCA Stmt. in Support at 8. The parties made recommendations in specific areas discussed below.

I&E recommended rejecting the EE&C Plan because there is no requirement for it and it would utilize millions in ratepayer dollars. This Plan does not enhance safe and reliable utility service, and there is little incentive to encourage participation in conservation measures when gas prices are low. While mandated plans require specific usage reductions to avoid fines, this Plan has no mandated goals, no financial repercussions for poor performance, but there is full cost recovery from ratepayers. If the Plan is approved, I&E recommended that the OCA modifications be included. I&E Stmt. in Support at 15-16.

I note that the EE&C Plans of electric distribution companies are brought as separate Commission proceedings under 66 Pa.C.S. § 2806.1. It is highly irregular to include an EE&C Plan as part of a base rate case. Nevertheless, it is an important part of the Settlement and is considered here.

1. Spending Caps

UGI's filed proposal projected a budget of \$27.6 million for energy efficiency programs but did not include a spending cap.

The OCA recommended a spending cap of \$27 million for the five-year period, which was agreed to and included in the Settlement. Settlement ¶37. In addition, the Rate Schedule LFD customers will not be assessed more than \$1.1 million in EE&C costs over the five-year period. Settlement ¶37. These limitations will ensure that the costs do not exceed a reasonable level and are in the public interest because they limit ratepayer exposure to overspending by the Company.

2. EE&C Rider

For purposes of assessing a monthly line item charge to appear on the bills of ratepayers, UGI proposed an EE&C Rider.

OSBA recommended tracking costs and developing separate charges for small nonresidential customers and large nonresidential customers. OSBA sees its role here to ensure that the beneficiaries of the EE&C Plan make a reasonable contribution on their own behalf and that non-participant costs are not excessive. OSBA Stmt. in Support at 11.

UGI agrees to establish four EE&C rate classes: (1) R/RT; (2) N/NT; (3) DS; and (4) LFD. Each rate class will have only those costs allocated to it which were incurred to serve that rate class. Settlement ¶ 38. UGIII is satisfied that Rate Schedule LFD will be responsible for no more than \$1.1 million in costs. UGIII Stmt. in Support at 4. This provision is just and reasonable and in the public interest because of its inherent fairness in recovering EE&C costs based on the projected participation rates for each class's customers.

3. Multi-family Housing

OCA recommended adding a provision which UGI had not included in its proposal which seeks to increase the participation of multi-family housing customers. OCA explains that multi-family housing buildings have unique characteristics and may require specific attention as it is not unusual for low-income ratepayers to reside in multi-family housing. Accordingly, the Settlement requires UGI to develop targeted EE&C Plan marketing materials for existing residential multi-family customers and new multi-family residential construction, including master-metered multifamily residences, with such materials focusing on property management companies and landlords. Settlement ¶39.

CAUSE-PA applauds Paragraphs 37-45 of the Joint Petition which it states are "designed to improve the reach of UGI's proposed EE&C programs and mitigate UGI's failure to include any targeted low-income EE&C programming within its proposed Plan." CAUSE-PA Stmt. in Support at 4. CAUSE-PA points out that low-income consumers often live in multi-

family housing, which is not well-served by EE&C programs. CAUSE-PA promotes the idea that programs which target these types of residences will help to reduce energy usage and, in turn, to reduce the amount of direct financial assistance needed to service low-income households through other types of universal service programming. CAUSE-PA Stmt. in Support at 4.

This provision is in the public interest as multi-family housing is less energy efficient than other housing types and can benefit the most from an EE&C Plan.

4. Coordination with LIURP

UGI did not propose a program which targets low-income customers, and OCA recommended that it should be required to do so. UGI points out that its LIURP is designed to improve low-income customers' energy efficiency and that implementing a targeted low-income specific program would cost between \$5 million and \$8 million over the life of the five-year program. UGI Stmt. in Support at 29.

In the Settlement, UGI agrees that customers who contact UGI or its EE&C Conservation Service Providers (CSPs) with an interest in participating in the EE&C Plan will be told of LIURP and referred to the program, as will confirmed low-income customers be referred to LIURP. Settlement ¶40. CAUSE-PA asserts that "if fully and robustly implemented," this referral provision will support and strengthen coordination between LIURP and other EE&C programs. As this will help ensure that low-income customers receive the level of assistance necessary for low-income households to adopt energy efficiency measures, CAUSE-PA fully supports this Paragraph. CAUSE-PA Stmt. in Support at 5.

This provision will undoubtedly assist numerous low-income customers in lowering and subsequently being able to pay their gas bills, and is therefore in the public interest.

5. TRC Test

UGI's proposal was to utilize a TRC test to evaluate the cost effectiveness of the EE&C Plan and programs, which compares the avoided cost of resources, including natural gas, electricity, and water, against the incremental cost of pursuing efficiency measures and any administration costs incurred under the programs. I&E and OSBA opposed the EE&C Plan, especially the inclusion of hypothetical carbon tax costs and DRIPE in the TRC test methodology. OSBA Stmt. in Support at 9-10; I&E Stmt. in Support at 13-18.

To resolve the dispute, the Settlement provides that the Company will include TRC Test evaluations with and without the economic effects of carbon taxes and DRIPE in the evaluations of the programs' cost effectiveness. Settlement ¶ 41. Because the evaluations will provide sufficient information to evaluate whether the EE&C programs are cost-effective, this provision is in the public interest.

6. Nonresidential Program Spending

OSBA, with the support of I&E, questioned the amount a participant in a nonresidential EE&C program contributes to a project and recommended limitations to utility costs for each nonresidential EE&C program. OSBA Stmt. 1 at 43-44.

The Settlement limits recoverable utility costs (i.e., incentives, program administration, marketing, inspections and evaluation) for nonresidential prescriptive program, the nonresidential retrofit program, and the nonresidential new construction program to 55% of the overall costs for the three programs. Should additional funding be necessary, UGI may voluntarily make the contribution without EE&C cost recovery. Settlement ¶ 42.

This provision is in the public interest because it represents a reasonable compromise of the parties' positions, and it places reasonable limitations on the recovery of utility costs for nonresidential EE&C programs.

7. Measure Qualifications

Settlement Paragraph 43 requires that all appliances and equipment qualifying for rebates or incentives must "meet or exceed" U.S. Department of Energy "EnergyStar" minimum standards where they exist. This requirement is in the public interest because it sets a minimum performance standard for replacement appliances and promotes energy conservation.

8. Fuel Switching

OCA argued that conversions from other fuel sources should not qualify for incentives under the Residential Prescriptive Program and the Residential Retrofit Programs because it appeared that UGI was using the proposed EE&C plan as a ratepayer-funded marketing tool to expand the Company's business. OCA Stmt. 3 at 46. Therefore, OCA opposed allowing customers converting from other fuel sources to be eligible for incentives under the EE&C Plan.

Recognizing that conversions from alternate fuels may also promote conservation, Settlement Paragraph 44 states that incentives, rebates or credits are primarily intended to provide incentives to cover the cost difference between baseline gas and more efficient gas appliances. OCA accepts this as assurance that the EE&C Plan will not be used primarily as a marketing tool to expand UGI's business. This paragraph, in conjunction with the next which provides for annual stakeholder meetings to review and discuss the EE&C Plan's progress, will allow for the monitoring necessary to assure proper use of this provision.

9. Monitoring and Reviewing the EE&C Plan

UGI agrees to hold an annual stakeholder meeting to review and discuss the EE&C Plan's progress and to receive input from stakeholders regarding possible modifications to the Plan. The Settlement specifies that the meeting shall be held within three months after UGI submits its annual EE&C Plan report to the Commission. Settlement ¶ 45. This provision is in the public interest because it provides parties to this proceeding as well as the Commission the opportunity to review, monitor, and possibly modify the Plan during the five-year period it is in

effect. As such, it is in the public interest. UGI Stmt. in Support at 32; CAUSE-PA Stmt. in Support at 5; OCA Stmt. in Support at 9.

D. Universal Services

In its filing, UGI proposed to adopt a Universal Service Plan (USP) Rider similar to those approved by the Commission in the most recent PNG and CPG base rate cases. *Pa. Pub. Util. Comm'n, et al. v. UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc.*, Docket Nos. R-2008-2079660, R-2008-2079675 (Final Order entered August 27, 2009). UGI notes that it did not propose any changes regarding administration, services provided, or funding levels of its universal service programs in its filing. However, a number of parties promoted certain adjustments. While UGI notes that most of the recommendations made could have been made in UGI's Universal Service proceeding at Docket No. M-2013-2371824, it agrees to implement some of them in this proceeding. Settlement Paragraphs 46 through 56 result from those adjustments. UGI is to implement the program changes within 90 days of the effective date of the rate increase. Settlement ¶ 46.

1. LIURP Funding

CAUSE-PA recommended that the LIURP funding be increased at a percentage equivalent to the base rate increase resulting from this proceeding. CEO also recommended an increase in the LIURP budget and lists the increase as a reason that it supports the Joint Petition for Settlement. CEO Stmt. in Support at 1.

UGI did not agree with these recommendations in its testimony, because it had recently doubled the program budget and increased funding would require the company to determine whether it had allocated the appropriate resources necessary to ensure that it could provide an increased number of weatherization jobs and the increased amount to be recouped through the USP Rider. UGI also opposed carrying over unspent funds into the next year in order to avoid complications in administering the program. UGI Stmt. in Support at 34.

Settlement Paragraph 47 provides that LIURP funding will increase by the percentage distribution rate increase for the residential customer classes reflected in the Revenue Allocation in Settlement paragraph 32, which is \$185,900. The increase is conditioned upon full recovery through the USP Rider and will take effect on January 1, 2017.

This provision is in the public interest because it helps to offset the impact of the rate increase on UGI's low-income customers by allowing UGI to increase the number of weatherization jobs it performs each year while still recovering the costs of the program.

2. Winter Termination Policy Revisions

In response to concerns voiced by OCA regarding the proposed income verification language in proposed Tariff Rule 9.1(b) as too restrictive, and to OCA's concerns regarding UGI's winter termination policies, UGI did not agree with the assertion. However, UGI did agree to modify proposed Tariff Rule 9.1(b) to state, "UGI Gas 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 level threshold." A LIHEAP application within the past 12 months or a current CAP customer will also not be required to re-certify. Settlement ¶ 48.

OCA avers that these modifications will enhance and streamline the income verification process and provide a benefit to customers consistent with the winter termination protections. OCA Stmt. in Support at 12. For this reason, the provision serves the public interest.

3. CAP Enrollment and Solicitation

Settlement Paragraphs 49, 55 and 56 allay the concerns of CEO because it confirms UGI's intention to continue to use community-based organizations to assist in its universal service programs. CEO Stmt. in Support ¶3(B). In addition, UGI will include CAP outreach as an agenda item at its biannual Universal Service committee meetings. UGI also

commits to propose measures for enhanced CAP enrollment in its next triennial Universal Service filing. Settlement ¶ 49.

CAUSE-PA applauds this paragraph, stating:

This multifaceted provision to bolster CAP enrollment provides immediate action through enhanced CBO outreach and an avenue for further improvement through stakeholder participation and future filings with the PUC. This compromise provision offers a clear path toward current and future improvement in CAP enrollment trends to ensure that UGI's low income households are able to access affordable service in light of the significant increase in residential rates.

CAUSE-PA Stmt. in Support a 6-7.

OCA had argued in testimony that UGI should do a better job of enrolling its confirmed low-income customers in the CAP Program and in targeting low-income customers who are in arrears for enrollment in CAP. OCA submits that the enhanced initiatives to improve CAP enrollment are beneficial to UGI customers now and that the agreement will provide the OCA and other stakeholders with the ability to advance these objectives in UGI's future Universal Service plans. OCA Stmt. in Support at 11.

In Settlement Paragraph 51, UGI agrees to continue to screen for eligibility and/or to refer customers calling about a payment arrangement or similar credit-related issues to appropriate Universal Service programs. This recognizes that UGI's current practices satisfy the requirements of Chapter 14 of the Public Utility Code, 66 Pa.C.S. Chapter 14, as well as Chapter 56 of the Commission's regulations, 52 Pa.Code Chapter 56, while showing UGI's commitment to assisting additional low-income customers with CAP enrollment. UGI Stmt. in Support at 36.

These provisions are in the public interest because they are consistent with the Commission's obligation under the Public Utility Code to ensure that universal service programs are appropriately funded and available using community-based organizations for implementation and outreach. It recognizes and addresses the needs of low-income customers and provides stakeholders with the opportunity to suggest improvements.

4. Low-Income Customer Tracking Practices

Settlement Paragraph 50 seeks to enhance UGI's efforts to identify and track low-income customers by requesting income information on the initial call to establish new service and/or to restore previously terminated service, while under Settlement Paragraph 52, UGI agrees to include in applicable reports to the Commission those customers who are in default of payment arrangements but who are still active customers.

CAUSE-PA had advocated strongly for improved tracking of low-income customers, pointing out that customers with an income lower than 250% of the Federal Poverty guidelines are protected from paying a security deposit and from winter termination. In order to afford these protections, the eligible customers must first be identified. CAUSE-PA states that this provision in the Settlement improves UGI's ability to identify and track these customers. CAUSE-PA Stmt. in Support at 7.

As the public interest is well-served by providing protections required by law to Pennsylvania's most vulnerable citizens, this provision is in the public interest.

5. Security Deposit Waivers

Settlement Paragraph 50 provides that security deposits be waived for income qualified households, and Paragraph 53 provides that there is no requirement that a low-income customer be enrolled in a CAP program in order to qualify for the waiver. In Paragraph 55, UGI agrees to consult with its CBOs to investigate the feasibility of using alternative communication means for the purpose of processing applications and verifying income for security deposit waiver and CAP enrollment. UGI agrees to inform applicants and customers of the opportunity for security deposit waivers for income-qualified households and will revise its employee training materials regarding waivers of a security deposit for low-income customers. UGI Stmt. in Support at 37-38.

These provisions enhance UGI's service to low-income customers and are in the public interest.

E. Language and Access issues

Settlement Paragraphs 57 and 58 are included in response to concerns voiced by CAUSE-PA regarding language barriers to the provision of service to UGI customers. Paragraph 57 requires UGI to translate into Spanish the two remaining program documents which are not currently available in Spanish (LIURP and Operation Share), and to require the CBOs to have access to Spanish language interpretation services if 5% or more of the residents in that portion of the service area served by the CBO speak Spanish, based on U.S. census data.

CAUSE-PA states that this provision is intended to bring UGI into compliance with Commission regulations and is also aimed at complying with Title VI requirements. CAUSE-PA Stmt. in Support at 8.

Settlement Paragraph 58 requires UGI to revise its policy regarding forms of identification to permit the "government issued photo identification" to include photo identification issued by a foreign government. CAUSE-PA explains that this provision is designed to remedy UGI's current policy, which acts as a barrier for non-US citizens seeking to establish gas service in UGI's territory. CAUSE-PA Stmt. in Support at 7-8; *see* Testimony of Kay Pickering, Tr. 50-56 (Harrisburg public input hearing).

UGI promotes these paragraphs as balancing UGI's interest in ensuring that an applicant is not initiating service with UGI while carrying arrearages from another account and its duty to provide service to all customers in its service territory. UGI Stmt. in Support at 39-40.

The provision clarifies the definition of "government-issued photo identification" to allow those issued by governments other than the U.S. and increases the ability of UGI to provide service and is, therefore, in the public interest.

F. Medical Certificates

In Settlement Paragraphs 59 and 60, UGI agrees to clarify its medical certificate procedures to reflect its practice of faxing the medical certificate form directly to the physician's office and to state that its own form is not the only acceptable means of obtaining a medical certificate. CAUSE-PA states that this adds clarity to the process and better complies with Commission requirements while ensuring that vulnerable customers with acute medical needs are protected from termination where preventable. CAUSE-PA Stmt. in Support at 8.

UGI states that this compromise recognizes UGI's interest in reducing the potential for fraud and clarifies the additional writings a customer may submit to UGI when applying for a medical certification. UGI Stmt. in Support at 40.

Clarification of the means necessary for obtaining medical certification is in the public interest.

G. Protection from Abuse Procedures

Settlement Paragraphs 61 through 68 revise UGI's PFA procedures. CAUSE-PA expressed concern that the existing procedures are outdated and do not properly protect victims of abuse, and these paragraphs address those concerns.

Paragraphs 62, 63 and 64 specify that UGI will apply the protections for any customer or applicant with a court order which contains clear evidence of domestic violence against the applicant/customer, regardless of the underlying relationship between the victim and the abuser. UGI's present policies assume that the victim and abuser are a heterosexual married couple, and the reality is that other relationships between victim and abuser may be involved in a PFA. The changes here will expand the protections to all court orders with clear evidence of domestic violence and explicitly acknowledging that the protections are not limited to heterosexual married couples. CAUSE-PA Stmt. in Support at 9.

Paragraph 65 commits UGI to providing domestic violence training for its management and training departments, followed by annual training for customer service representatives.

Paragraphs 66 and 67 provide that receipt of a valid PFA will prevent a balance transfer into the name of the PFA holder unless he or she is the customer. In addition, a balance accrued by the PFA holder and a third party jointly will not be automatically added to a new account opened by the PFA holder unless collection attempts are unsuccessful against that third party for 90 days. This will be implemented with the new computer information system set for fall of 2017.

Paragraph 68 will establish protections for the PFA document itself by creating a method to keep it confidential.

These provisions will improve the Company's handling of sensitive information and vulnerable individuals to give better access to gas service at a second location without further punishing a PFA holder and are in the public interest.

H. Industrial Intervenor Issues

UGI explains that several tariff revisions proposed in the initial filing were intended to standardize tariff provisions with those contained in CPG and PNG tariffs, reflect best practices, add clarity, and update the UGI tariff to reflect changes in business practices. UGIII recommended additional revisions and opposed several of the proposals, OCA recommended revisions to facilities' expansion and extension rules, and RESA recommended revision to the proposed balancing charges. UGI states that the results below reflect a reasonable compromise of the parties' positions that balances their interest and resolves all issues. UGI Stmt. in Support at 41-42.

H. Combined Billing – Proposed Tariff Rule 1.4

The Company proposed that this Tariff Rule be amended to read:

1.4 Application of Rates: The rates named in this Tariff are based upon supply to one Customer through one meter at the same or contiguous property. Each service to a different location and/or of a different rate classification shall be billed as a separate Customer. Customers who take service at two or more locations on the same property under the same rate schedule may, by request, have their use of gas combined for billing purposes; Customers electing to take advantage of this rule may do so only at the time initial service is established to the premises and shall pay the cost of all additional service connections required unless, in the Company's sole judgment, the Company's investment in such connections is warranted by the revenue anticipated from the service to be supplied. Customers may not pool together for purposes of qualifying for a rate schedule.

UGI Filing Book XI, Proposed Tariff Original Page 12.

UGIII sought a change to this proposed tariff rule so that combined billing could be considered where a customer owns contiguous properties with separate points of service where there would be a sufficient revenue stream justifying the arrangement.

UGI's litigation position was to oppose the UGIII proposal as the Rule was designed to ensure that customers pay for the cost incurred by UGI to serve them, that the assumptions made in developing rate designs are reasonably adhered to in practice, and that UGI Gas has a reasonable opportunity to earn its revenue requirement. The Company recovers the costs of meters through the customer charge, so it makes sense to separately charge a customer for each meter the customer takes service from. UGI Stmt. 7-R at 16-17; UGI Stmt. in Support at 43.

In the Settlement, UGI agrees to add language to proposed Rule 1.4 that permits consideration of combined billing where a customer owns contiguous properties so long as the economics of the arrangement provide a revenue stream that justifies the arrangement. The Settlement proposed tariff rule reads:

1.4 Application of Rates: The rates named in this Tariff are based upon supply to one Customer through one meter at the same or contiguous property. Each service to a different location and/or of a different rate classification shall be billed as a separate Customer. Customers who take service at two or more locations on the same or contiguous property under the same rate schedule may, by request, have their use of gas combined for billing purposes; Customers electing to take advantage of this rule shall pay the cost of all additional service connections required unless, in the Company's sole judgment, the Company's investment in such connections is warranted by the revenue anticipated from the service to be supplied. The Company will provide Customers with a written explanation regarding its analysis of the arrangement's economics. Customers may not pool together for purposes of qualifying for a rate schedule.

Settlement, Appendix A, Tariff Original Page 12.

Pursuant to the Settlement ¶ 69, the interests of the large commercial customers and the Company are both protected. The agreed-upon provision will enhance communication between the Company and its customers while allowing the consideration of reasonable consolidation of bills where it will not be subsidized by other customers and is in the public interest.

2. Facilities and System Access – Proposed Rule 2.3

UGIII recommended eliminating proposed Rule 2.3 or at least revise it to enable UGI to review customer plans for facilities development only for system safety purposes. UGIII Stmt. 1 at 9. The rule as proposed reads:

2.3 Facilities and System Access. Each Customer with a Daily firm Requirement ("DFR") or peak usage capability of 1,000 MCF per day or greater shall mutually plan and coordinate with the Company, development of all gas facilities to the Customer's premises (including pipelines, mains, service lines and appurtenances), in order to minimize duplication of facilities and to avoid unnecessary construction, as follows:

(a) If the Customer proposed to acquire, construct or contract for the use of service of gas facilities ("Customer gas facilities"), the Customer will provide advance notice to the Company in writing, at least sixty (60) days in advance of the

earlier of the effective date of a contract for or commencement date for construction of Customer gas facilities. The Company shall be provided with sufficient information and a reasonable opportunity to evaluate the proposal and to submit to Customer for its consideration one or more alternative proposals (including expansion of Company facilities or other methods).

(b) The Customer agrees to submit all design and construction specifications and drawings to the Company in advance of construction, which demonstrate compliance with all applicable requirements as to gas main and service construction and pipeline safety. If the Company determines that Customer gas facilities will encroach upon or interconnect with Company facilities, serve common gas utilization equipment with Company facilities or are in the immediate vicinity of Company facilities such that the safety of Company facilities may be adversely affected thereby, the Company shall have the right to approve the design and location of such Customer gas facilities. The Company shall act upon its right to approve such Customer gas facilities within 90 days after the latter of submission of all design and construction specifications and drawings to the Company, or Customer notification required under Rule 2.3(a). Customer gas facilities will be deemed to encroach upon the Company's facilities when they would interfere with or prevent the company from accessing, maintaining or operating its facilities or when the Customer gas facilities would be configured or located in a manner that would cause safety or reliability concerns with respect to the Company's facilities.

(c) If the full 60-day notice required in Rule 2.3(a) is not given or if the Customer otherwise fails to comply with Rule 2.3, then the Customer shall pay the Company the amount of \$1,000 per day for each day the Customer failed to comply but in no event more than \$30,000.

UGI Filing Book XI, Proposed Tariff Original Page 23.

Under the Settlement, the proposed language is modified to: (1) insert language indicating that customers with DFR or peak usage capability of 1000 Mcf per day or more shall provide UGI with the opportunity to review plans for gas facility development on the customer's premises to ensure safety and reliability; (ii) revise subsection (a) to reflect a 30-day notice period; (iii) revise subsection (b) to shorten UGI's review and approval period to 45 days; and (iv) modify subsection (c) to permit UGI to discontinue service upon discovery of safety or reliability concerns if the customer has not provided 30 days' notice of a proposed facility

project. UGI will notify customers with a DFR of 1000 Mcf or higher with notice of this tariff rule change.

These modifications balance the needs of the large industrial customers' ability to make necessary changes to its facilities more quickly with the needs of the Company to ensure that the gas facilities are constructed in a safe and reliable manner. As such, the public interest is served.

3. Bypass – Proposed Rule 2.6

The Rule as originally proposed reads:

2.6 Distribution System bypass. Unless otherwise provided by contract, if any Customer or potential Customer of the Company bypasses the company for all or a portion of their natural Gas Service needs then the Company thereafter shall have no obligation to serve or maintain the gas supply or physical capacity necessary to serve such Customer under regulations specified herein. In addition, to the extent that such Customer continues to purchase natural gas or natural gas transportation service from the Company, the Company shall have the right to charge a negotiated rate for continued, subsequent or standby service that, at a maximum, is established solely by competitive market conditions.

UGI Filing Book XI, Proposed Tariff Original Page 15.

UGIII recommended removing this proposed rule entirely. UGI objected, as the rule is a modification of the existing Tariff Rule 17.6(d) and is used by the Company to determine that a customer will no longer be a reliable source of revenue to justify existing and future investments. UGI Stmt. in Support at 44-45.

The agreed-upon modifications add language confirming that a customer returning from a total bypass will be served by UGI on the same basis as a new customer; that UGI will continue to service the remaining portion of a bypassing customer's load consistent with the terms of an existing service agreement; that UGI will negotiate new service agreements to continue service so long as the anticipated revenues justify the cost of providing the service;

and UGI will calculate the customer's negotiated standby charge in a manner that reflects the costs of the customer's alternatives. Settlement ¶ 71. The Settlement language reads:

2.6 Distribution System Bypass. Unless otherwise provided by contract, if any customer or potential Customer of the company bypasses the company for all or a portion of their Natural Gas Service needs then the Company thereafter shall have no obligation to serve or maintain the gas supply or physical capacity necessary to serve the Bypass portion of such Customer's load, provided, however, that the Company will continue to serve the un-bypassed portion of a bypassing Customer's load consistent with the terms of any existing service agreement and will negotiate new service agreements to continue service so-long as the anticipated revenues justify any costs of providing the service. In addition, to the extent that such Customer returns from a total bypass, the Company shall serve such Customer as a new Customer and shall have the right to charge a negotiated rate for continued, subsequent or standby service that, at a maximum, is established solely by competitive market conditions, which shall reflect the cost of the Customer's alternatives.

Settlement, Appendix A, Tariff Original Page 15.

The modifications clarify the rights of the Company and the customer under the circumstances described, and as such, are in the public interest.

4. Facilities Ownership – Proposed Rule 4.1

UGI proposed language similar to that in the tariffs of CPG and PNG which caused some concern for UGIII. UGI Stmt. in Support at 45. The resolution is the addition of language underlined below:

4.1 Facilities Ownership. Unless otherwise mutually agreed in writing that particular facilities are owned by the Customer, and except as provided in Sections 4.3 below, the Company will own and maintain any facilities required for the supply of Gas Service up to the outlet side of its metering equipment, including but not limited to, any mains, service lines, meters, regulators, connections or other equipment. All such equipment shall remain the exclusive property of the Company.

Settlement, Appendix A, Tariff Original Page 20.

Under the terms of the Settlement, UGI agrees to work with impacted UGIII members to confirm the ownership status of any facilities in question before it claims ownership. Settlement ¶ 72. This agreement and the addition of language protects both customer and Company, and is therefore in the public interest.

5. Special Utility Service – Proposed Rule 5.7; Obligation to Extend or Expand – Proposed Rule 5.1

Tariff Rule 5 governs extensions of service, including the conditions of construction and installation as well as responsibility for costs incurred. Proposed Rule 5.7 provided that Rule 5 would not apply to special utility service, i.e., extension applicants with installed alternate fuel capacity; those located in a dual service territory, Rate Schedule XD applicants, or applicants who could receive service from an interstate pipeline, local production fields, or production facilities, which would be addressed on a case-by-case basis. UGIII recommended amending the proposal with more detail.

UGI agreed to eliminate this proposed Rule with the understanding that the economic test is preserved for all non-residential line extensions. Settlement ¶ 73. OCA agrees that removal of this rule is in the public interest because it promotes the concept that extensions of mains and facilities are economically justified. OCA Stmt. in Support at 14. The economic test is to be added to Proposed Rule 5.1 as follows:

5.1 Obligation to Extend or Expand. Under the rules set forth below and under normal conditions of construction and installation, upon written application, the Company will extend or expand its facilities within its service territory, provided that (a) the requested extension or expansion will not adversely affect the availability or deliverability of gas supply to existing customers and (b) the Company's investment in facilities is warranted by the Annual Base Revenue to be derived from the extension. The costs of extending or expanding facilities beyond the Company's Allowable Investment Amount shall be paid by the Extension Applicant as a contribution. Upon request, the Company will provide Customers with a written explanation and reasonable detail of the cost-benefit analysis used in clause (b) above including estimated project costs, the Company's maximum allowable

investment, and the Company's Annual Base Revenues. In addition, the Company will provide the Customer with a written time table for the anticipated construction of the upgrade and written notice of completion.

Settlement, Appendix A, Tariff Original Page 22 (Settlement language underlined).

The Settlement balances the Company's need to reject uneconomic applications with the applicants' rights to understand why requests for extension are rejected. As such, it is in the public interest.

6. Pressure Correction – Proposed Rule 7.3

UGIII expressed concerns regarding this Proposed Rule and recommended modifications to provide customers some stated rights. The Settlement ¶ 75 adds agreed-upon language, underlined below:

7.3 Pressure Correction. At the Customer's request, the company may allow delivery at an elevated pressure that exceeds the standard pressure of seven inches water column (7" W.C.). In situations where delivery pressure is two pounds per square inch or greater, the Company may choose to use a fixed factor to account for the higher energy content of the higher pressure gas, whereby the metered volume is multiplied by the pressure factor to determine the correct energy consumed. In cases where the Company agrees to provide delivery service at such an elevated pressure without a fixed factor, a supplemental device will be installed at the Customer's expense to correct the meter reading for pressure and temperature, the cost of which shall be estimated, inclusive of overhead amounts, however, the Company and Customer may negotiate cost responsibility for installation of pressure mechanisms upon mutual agreement. The Company may reject a Customer's request for non-standard service at elevated pressure for system operational reasons, where the customer does not agree to pay the cost for non-standard service, where applicable, under Rules 4.7, 5.3 or 5.4(a), or for any other reason that the company may determine at its sole discretion.

Settlement, Appendix A, Tariff Original Page 29 (Settlement language underlined).

This added language adds clarity regarding responsibility for costs incurred in pressure correction services while retaining UGI's discretion to evaluate service requests while preventing subsidization from other customers. As such, it is in the public interest.

7. Daily Flow Directive and Operational Flow Order

a. Method of Delivering DFD and OFO Notices

UGIII presented a substantial amount of testimony detailing its members' frustration with UGI's use of Daily Flow Directives (DFDs) and Operational Flow Orders (OFOs). UGI agreed to improve its means and timing of communications with customers in Settlement ¶ 76 by agreeing to deliver the notices by email and to post them on the UGI website, and by agreeing to include an explanation of the cause of the DFD and OFO.

This modification to UGI's Tariff enhances communication between the Company and its customers and by formalizing a process which UGI avers it already does informally, UGI Stmt. in Support at 49, will allow the Company and customers to know what to expect. As such, this provision is in the public interest.

b. DFD and OFO Definitions

UGIII objected to certain language included in the definitions of DFD and OFO, and is satisfied by UGI removing a phrase, as indicated below:

Daily Flow Directive: An order issued by the Company to address system management, including actions necessary to comply with statutory directives and obligations including the Company's obligations pursuant to 1307(f) gas procurement activities, but not solely for other economic reasons. DFDs will be communicated to affected Customers of NGSs either electronically, by telephone, by facsimile, through the use of the media or by an alternate mutually agreed upon method between the company and the customer or NGS. Customers and NGSs must provide the Company with a 24-hour contact for DFDs.

Operational Flow Order: A directive issued by the Company that is reasonably necessary to alleviate conditions that threaten the operational integrity of the Company's system on a critical day, including actions necessary to comply with statutory directives and obligations ~~including the Company's obligation pursuant to 107(f) [sic] gas procurement activities, but not solely for other economic reasons~~. OFOs will be communicated as soon as reasonably practical to affected Customers or NGSs either electronically, by telephone, by facsimile, through the use of the media or by an alternate mutually agreed upon method between the Company and the Customer or NGS. Customers and NGSs must provide the company with a 24-hour contact for OFOs.

Settlement, Appendix A, Tariff Original Pages 8, 9 (Language removed due to Settlement stricken through).

As the removal of the stricken language, above, does not change the fact that UGI must comply with statutory directives and obligations, there is no harm in it. As it was a part of a larger Settlement, acceptance of this language is in the public interest.

8. Maximum Daily Excess Balancing Charge – Proposed Rule 20.4

As proposed, Rule 20.4 reads:

20.4 Maximum Daily Excess Balancing charge

The Daily Excess Balancing Charge that applies on Critical Days shall be as follows:

The charge for exceeding daily balancing limits shall be ten times the highest price for delivery in Texas Eastern, M-3, as published in *Gas Daily* on the table "Daily Price Survey." This rate shall not be lower than the maximum penalty charge for unauthorized daily overruns as provided for in the FERC-approved gas tariffs of the interstate pipelines which deliver gas into Pennsylvania.

The Daily Excess Balancing Charge that applies on Non-Critical Days shall be as follows:

<u>Daily Imbalance Percent</u>	<u>Penalty</u>
Up to 15%	GDI
Greater than 15% but not greater than 30%	GDI x 2
Greater than 30% but not greater than 45%	GDI x 3
Greater than 45% but not greater than 60%	GDI x 4

Greater than 60%	GDI x 5
Intentional imbalances	GDI x 10
<u>Intentional imbalances</u>	<u>GDI x 5</u>

The GDI (Gas Daily Index) shall be equal to the difference in price between the highest published Gas Daily index price for Texas Eastern, M-3 and the lowest published Gas Daily index price for Texas Eastern, M-2 but shall not be lower than \$0.25/Mcf. The Company shall not charge any Maximum Daily Excess Balancing Charges if the Excess Daily Imbalance is anticipated to benefit the distribution systems daily balancing position as determined by Company in its sole discretion.

Settlement, Appendix A, Tariff Original Pages 8, 9 (Removed Settlement language stricken through and added Settlement language underlined). Settlement ¶ 78.

The modification recognizes UGI's interest in deterring intentional customer behavior when it can affect system reliability and as such, is in the public interest.

9. Continuity of Service & Liability/Legal Remedies – Proposed Rule 6.5 and 1.5

Although UGI argued that the revisions to these sections were merely to mirror the provisions in the tariffs of CPG and PNG, UGIII recommended that the current tariff language be retained. In Settlement ¶ 79, UGI agrees to withdraw its proposed language in favor of the existing tariff language. As this language had already been in its tariff, it has already been approved and can be considered to be in the public interest.

10. Winter Planning Meetings

At the urging of UGIII, Settlement Paragraph 80 provides for UGI to hold an annual winter planning meeting with its large transportation customers to discuss system needs for the winter. The first meeting will include a special training session to discuss the new tariff provisions. While recognizing that UGI already held meetings with suppliers which large industrial customers were able to attend, this increased level of communication can only improve relations between UGI and its largest customers, which can only be in the public interest.

11. OFO/DFD/Balancing/NNS Relationship Revisions

In Settlement Paragraph 81, UGI agrees to expand its existing operational capacity council to address the interrelated provisions affecting OFOs, DFDs, balancing and No Notice Service. There will be at least two meetings per year until UGI's next base rate case, and UGIII members will be invited to attend. This represents a good use of existing resources to address additional concerns of UGI's largest customers, and as such, is in the public interest.

I. Competitive Supplier Issues

UGI explains that in its filing, it proposed several revisions to the Choice Supplier Tariff with the intention of standardizing its tariff provisions with those contained in the CPG and PNG supplier tariffs, to reflect best practices, to add clarity, and to update the Tariff. The NGS Parties and RESA expressed their disagreement with some of the changes, and the parties all agreed upon the Settlement.

1. Modified Financial Security Provisions (Choice Tariff Section 8.2)

The section as proposed reads as follows:

8.2 Amount of Financial Security. A Choice Supplier seeking to be licensed to provide service on Company's system shall be required to provide an initial amount of \$50,000 in financial security. After the Choice Supplier begins to serve customers on Company's system the amount of financial security shall, unless otherwise mutually agreed, will be as follows: (i) the financial security for residential customers will be \$60.00 per customer; and (ii) the financial security for non-residential customers will be equal to \$94.24/Dth [\$134.63/Dth] times the Design Day Requirement (in Dth) for Choice Supplier's pool of non-residential customers [Choice customers *as established at Docket No. P-00032054),] but in no event shall the amount of financial security be less than \$50,000. This security level shall be subject to adjustments as provided in Section ~~8.4.~~ 8.5. Provided, however, the Company reserves its right to file to change that methodology

after the effective date of new rates established in the proceeding if the security levels prove inadequate.

Settlement, Appendix A, Choice Tariff Original Page 105 (Language removed by Settlement language stricken through and additional language underlined).

The NGS Parties state that the reductions in required financial security in the Settlement ¶ 83 will "free up capital for suppliers operating on the UGI system and will reduce barriers to entering and remaining in the UGI market." NGS Parties Stmt. in Support at ¶ 6. UGI agrees that the Settlement provision updates UGI's financial security requirements to account for the modern realities of the decreasing price of natural gas and decreasing usage per customer. UGI Stmt. in Support at 54. As this provision promotes competition without compromising safety and reliability, it is in the public interest.

2. Merchant Function Charge

In Settlement Paragraph 84, UGI agrees to adjust its Rate N Merchant Function Charge (MFC) to 9.36% and its Rate N Purchase of Receivables (POR) discount to 0.50%. UGI states that this provision incorporates a correction of an error identified by UGI in its MFC calculation, which also affected the uncollectible component of the POR discount. No other party expressed concerns regarding this correction, and as it addresses an error, it is in the public interest.

3. Gas Procurement Charge

In Settlement Paragraph 85, UGI states that it will increase the GPC from the proposed level of 1.46 cents to 9.0 cents per Mcf. The NGS Parties had recommended 23 cents, and OSBA recommended that gas supply and gas storage related working capital costs be included in the GPC. The NGS Parties state that this modification will ensure that default service customers pay a GPC that more accurately reflects the actual costs of procurement of natural gas supplies and will, at the same time, ensure that shopping customers are not paying twice for those costs through distribution rates. NGS Parties Stmt. in Support ¶7 at.3.

UGI opposed the NGS Parties' recommendation that the GPC include all working capital costs, labor charges, information technology and other related costs but agreed with OSBA's proposal to include \$843,869 in purchased-gas related cash working capital costs in the GPC calculation, which increased the GPC by approximately 3 cents. UGI Stmt. in Support at 55. The settled amount of 9 cents/Mcf is within the range of values proposed by the parties.

4. Customer Choice Switching Fee

Settlement Paragraph 86 simply eliminates the switching fee, which is in the public interest because eliminating the fee removes a discriminatory and anti-competitive feature of UGI's tariff. NGS Parties Stmt. in Support ¶ 8.

5. Monthly Balancing

Settlement Paragraph 87(a) provides that UGI will transfer all XD, LFD and IL customers to calendar month billing and balancing so that an NGS may have one or more pools based on like services, which fall into four categories: No Notice Service, No Notice with Monthly Balancing Service, Basic Balancing, and Basic Balancing with Monthly Balancing Service.

RESA explains that "balancing is the task of equalizing gas deliveries with anticipated customer load within a given pool, which is a group of customers lumped together by some characteristic – usually rate schedule." RESA Stmt. in Support at 3. Presently, NGSs are required to balance approximately twenty pools each month for customers on various rate schedules, which increases costs for NGSs and customers, and affects the proper functioning of the competitive retail market. RESA Stmt. in Support at 3.

Accordingly, Settlement Paragraph 87(a) simplifies the process for NGSs and provides NGSs with a more efficient balancing pool method that alleviates an administrative burden for the NGSs without requiring investment or subsidization by UGI's ratepayers. UGI Stmt. in Support at 57. This improves their ability to provide competitive service, and therefore is in the public interest.

Settlement Paragraph 87(b) commits UGI to filing with the Commission no later than June 1, 2017, a proposal that all Rate DS and IS transportation customers must install operable AMR/Metrotek equipment by a date certain. This provision serves both the NGSs' interests in moving all large transportation customers to AMR/Metrotek devices and the non-transportation customers' rights to participate in the development of the plan through a litigated proceeding. UGI Stmt. in Support at 57.

RESA supports this provision as it preserves its right to participate in the development of the plan while continuing the discussion regarding the use of the equipment in question. RESA Stmt. in Support at 4.

The provision benefits all parties and is therefore in the public interest.

6. Balancing Charges

Settlement Paragraph 88 will result in UGI making three revisions to its Balancing Charges: (1) the penalty for imbalances will be reduced from the present \$50/Mcf to \$25/Mcf for imbalances that occur on OFO dates; (2) for transactions larger than 750 Mcf, UGI will waive the imbalance trade fee imposed when one pool is out of balance and an NGS arranges a trade with another NGS; and (3) for transactions larger than 750 Mcf, UGI will waive pool-to-pool transfer fees that are imposed when an NGS transfers between its own customer pools.

This Paragraph addresses concerns raised by RESA claiming that excessive imbalance charges unnecessarily increase the overall costs to service customers. RESA Stmt. in Support at 4-5. UGI avers that the Settlement provision balances its interest in preventing deliberate arbitrage through supplier imbalance transfers and suppliers' interests in balancing customer pools in response to curtailment requests in a cost effective manner. UGI Stmt. in Support at 58. Consequently, this provision is in the public interest.

7. Compliance with Standards of Conduct

Settlement Paragraph 89 is in response to RESA's recommendations that UGI make several changes to its marketing materials, communications and advertising, consolidated bills, and information disclosed to NGSs, and that UGI revise its training materials and guidance to employees to make clear that they cannot represent that an affiliate NGS is superior to non-affiliated NGSs. RESA Stmt. 1 at 11-16. UGI notes that no instances of violations were alleged but agreed to inform all NGSs of the availability of any special discounted rates offered to affiliate NGSs and commits to revising training materials to make clear that UGI employees may not represent that an affiliate NGS is superior to other NGSs. UGI Stmt. in Support at 59.

These improvements will serve the public interest by not skewing the competitive market against non-affiliated NGSs.

VII. CONCLUSION

The Settlement is consistent with the Commission's preference for settlements. 52 Pa.Code §§ 5.231, 69.401. The terms, in whole and in part, are in the public interest as indicated in the discussion above, consistent with *York Water, supra*.

I&E promotes the Settlement as follows:

Ratepayers will continue to receive safe and reliable service at reasonable rates while allowing UGI sufficient additional revenues to meet its operating expenses and address its infrastructure needs while providing the opportunity to earn a reasonable rate of return. Furthermore, the overall revenue increase agreed to in the Settlement effectively moderates the increase initially proposed by the company. Accordingly, I&E submits that the proposed overall revenue and rate increase is in the public interest.

I&E Stmt. in Support at 10.

UGIII submits that the proposed Settlement serves the public interest and adheres to the Commission's policies favoring negotiated settlements. This Settlement was achieved

after settlement discussions. While the Parties have invested time and resources in the negotiation of the Settlement, this process has allowed the Parties and the Commission to avoid expending the substantial resources that would have been required to fully litigate these proceedings while still reaching a just, reasonable and non-discriminatory result. The Parties have thus reached an amicable resolution to this dispute as embodied in the proposed Settlement. Approval of the Settlement will permit the Commission and the Parties to avoid incurring the additional time, expense and uncertainty of further litigation of issues in these proceedings. UGIII Stmt. in Support at 7.

The Settlement follows multiple rounds of testimony and over a thousand interrogatories between parties. The parties represent residential ratepayers (OCA) and low-income ratepayers (CAUSE-PA, CEO), small business customers (OSBA), large industrial customers (UGIII), EGSs (RESA and the NGS Parties), environmentalists (SEF), and the public interest at large (I&E), as well as the Company itself. All ratepayers' interest are represented in this matter, and all parties agreed to the Settlement.

The Settlement is an indication that the litigating parties agree that the agreed-upon rates will permit the utility to earn a return on the value of the property which it employs for the convenience of the public, equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties. The parties are confident that the return is sufficient to assure confidence in the financial soundness of the utility and is adequate to maintain and support its credit and enable it to raise the money necessary for the proper discharge of the utility's public duties, consistent with *Bluefield*, supra.

Accordingly, the Settlement is found to be in the public interest and approval without modification is recommended.

VIII. CONCLUSIONS OF LAW

1. Every rate made, demanded, or received by any public utility, or by any two or more public utilities jointly, shall be just and reasonable, and in conformity with

regulations or orders of the commission. 66 Pa.C.S. § 1301.

2. The burden of proving the justness and reasonableness of every element of the utility's rate increase rests solely upon the public utility. 66 Pa.C.S. § 315(a); *Lower Frederick Twp. V. Pa. Pub. Util. Comm'n*, 409 A.2d 505 (Pa.Cmwlth. Ct. 1980).

3. While the burden of proof remains with the public utility throughout the rate proceeding, the Commission has stated that where a party proposes an adjustment to a ratemaking claim of a utility, the proposing party bears the burden of presenting some evidence or analysis tending to demonstrate the reasonableness of the adjustment. *Pa. Pub. Util. Comm'n v. Aqua Pennsylvania, Inc.*, Docket No. R-00072711 (Commission Opinion and Order entered July 17, 2008).

4. The Commission must consider the efficiency, effectiveness and adequacy of service of each utility when determining just and reasonable rates in exchange for customers paying rates for service, which include the cost of utility plant in service and a rate of return. 66 Pa.C.S. § 523.

5. In exchange for the utility's provision of safe, adequate and reasonable service, the ratepayers are obligated to pay rates which cover the cost of service which includes reasonable operation and maintenance expenses, depreciation, taxes and a fair rate of return for the utility's investors. *Pa. Pub. Util. Comm'n v. Pennsylvania Gas & Water Co.*, 61 Pa. PUC 409, 415-16 (1986); 66 Pa.C.S. § 1501.

6. The Commission has the discretionary authority to deny a proposed rate increase, in whole or in part, if the Commission finds that the service rendered by the public utility is inadequate. 66 Pa.C.S. § 526(a).

7. In proving that its proposed rates are just and reasonable, a public utility need not affirmatively defend every claim it has made in its filing, even those which no other party has questioned. *Allegheny Center Assocs. v. Pa. Pub. Util. Comm'n*, 131 Pa.Cmwlth. 352, 359,

570 A.2d 149, 153 (1990) (citation omitted). *See also, Pennsylvania Pub. Util. Comm'n. v. Equitable Gas Co.*, 73 Pa. P.U.C. 310, 359 – 360 (1990).

8. The mere rejection of evidence contrary to that adduced by the public utility is not an impermissible shifting of the evidentiary burden. *United States Steel Corp. v. Pennsylvania Pub. Util. Comm'n.*, 72 Pa.Cmwlth. 171, 456 A.2d 686 (1983).

9. The Commission is not required to consider expressly and at length each contention and authority brought forth by each party to the proceeding. *University of Pennsylvania v. Pa. Pub. Util. Comm'n.*, 86 Pa.Cmwlth. 410, 485 A.2d 1217 (1984). “A voluminous record does not create, by its bulk alone, a multitude of real issues demanding individual attention” *Application of Midwestern Fidelity Corp.*, 26 Pa.Cmwlth. 211, 230 fn.6, 363 A.2d 892, 902, fn.6 (1976).

10. In analyzing a proposed general rate increase, the Commission determines a rate of return to be applied to a rate base measured by the aggregate value of all the utility’s property used and useful in the public service. The Commission determines a proper rate of return by calculating the utility’s capital structure and the cost of the different types of capital during the period in issue. The Commission is granted wide discretion, because of its administrative expertise, in determining the cost of capital. *Equitable Gas Co. v. Pa Pub. Util. Comm'n.*, 45 Pa.Cmwlth. 610, 405 A.2d 1055 (1979).

11. The rate base is the value of the property of the utility that is used and useful in providing utility service. *Pennsylvania Power Company v. Pa. Pub. Util. Comm'n.*, 561 A.2d 43, 47 (Pa.Cmwlth. 1989). In the area of adjustment to rate base, the Commission has wide discretion. *Pennsylvania Power & Light Company v. Pa. Pub. Util. Comm'n.*, 516 A.2d 426 (Pa.Cmwlth. 1985); *UGI Corp. v. Pa. Pub. Util. Comm'n.*, 410 A.2d 923, 929 (Pa.Cmwlth. 1980); *Duquesne Light Co. v. Pa. Pub. Util. Comm'n.*, 174 Pa. Superior Ct. 62, 69-70, 99 A.2d 61, 69 (1953). However, the adjustments must be supported by sound reasons. *Philadelphia Suburban Water Co. v. Pa. Pub. Util. Comm'n.*, 394 A.2d 1063 (Pa.Cmwlth. 1978).

12. The law is clear that a utility is entitled to recover its reasonably incurred expenses. *UGI Corp. v. Pa. Pub. Util. Comm'n*, 410 A.2d 923 (Pa.Cmwlth. 1980). Expenses include such items as the cost of operations and maintenance (labor, fuel and administrative costs, e.g.), depreciation and taxes. *Pennsylvania Power Company v. Pa. Pub. Util. Comm'n*, 561 A.2d 43, 47 (Pa.Cmwlth. 1989).

13. The Commission is charged with the duty of protecting the rights of the public. As a general rule, a public utility, whose facilities and assets have been dedicated to public service, is entitled to *no more than* a reasonable opportunity to earn a fair rate of return on shareholder investment. It is the function of the commission in fixing a fair rate of return to consider not only the interest of the utility but that of the general public as well. The commission stands between the public and the utility. *City of Pittsburgh v. Pa. Pub. Util. Comm'n*, 126 A.2d 777, 785 (Pa.Super. 1956).

14. Rate of return is the amount of money a utility earns, over and above operating expenses, depreciation expense, and taxes, expressed as a percentage of the legally established net valuation of utility property, the rate base. Included in the 'return' are interest on long-term debt, dividends on preferred stock, and earnings on common equity. In other words, the return is the money earned from operations which is available for distribution among the various classes of contributors of money capital. *Pa. Pub. Util. Comm'n .v. Philadelphia Suburban Water Co.*, 71 Pa. PUC 593, 623 (1989).

15. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility, and should be adequate, under efficient and economical management...to raise the money necessary for the proper discharge of public duties. *Bluefield Waterworks & Improvement Co. v. Public Service Comm'n of West Virginia*, 262 U.S. 679 (1923).

16. Establishment of a rate structure is an administrative function peculiarly within the expertise of the Commission. *Emporium Water Company v. Pa. Pub. Util. Comm'n*, 955 A.2d 456, 461 (Pa.Cmwlth. 2008); *City of Lancaster v. Pa. Pub. Util. Comm'n*, 769 A.2d 567, 571-72 (Pa.Cmwlth. 2001). The question of reasonableness of rates and the difference

between rates in their respective classes is an administrative question for the Commission to decide. *Pennsylvania Power & Light Co. v. Pa. Pub. Util. Comm'n*, 516 A.2d 426 (Pa.Cmwlth. 1986); *Park Towne v. Pa. Pub. Util. Comm'n*, 43 A.2d 610 (Pa.Cmwlth. 1981).

17. The basic factor in allocating revenue is to have the rates reflect the cost of service. *Lloyd v. Pa. Pub. Util. Comm'n*, 904 A.2d 1010, 1020 (Pa.Cmwlth. 2006).

18. The Joint Petition for Approval of Settlement of All issues is in the public interest.

IX. ORDER

THEREFORE,

IT IS RECOMMENDED:

1. That the Joint Petition for Settlement of all Issues is approved without modification.

2. That the proposals set forth in UGI Utilities, Inc. – Gas Division's January 19, 2016 distribution base rate increase filing at Docket No. R-2015-2518438, are approved subject to the terms and conditions of the Joint Petition for Settlement of All Issues.

3. That the *pro forma* tariff attached to the Joint Petition for Settlement of All Issues as Appendix A is approved.

4. That the proof of revenues attached to the Joint Petition for Settlement of All Issues as Appendix B is approved.

5. That UGI Utilities, Inc. – Gas Division is authorized to file tariffs, tariff supplements and/or tariff revisions on one day's notice, and pursuant to the provisions of 52

Pa.Code §§ 53.1, *et seq.*, and 53.101, may be filed to be effective for service rendered on and after October 19, 2016. The tariffs shall be designed to produce an annual distribution rate revenue increase of \$27 million.

6. That UGI Utilities, Inc. – Gas Division shall file detailed calculations with its tariff filing, which shall demonstrate to the parties' satisfaction that the filed tariffs with the adjustments comply with the provisions of the Final Commission Order.

7. That UGI Utilities, Inc. – Gas Division shall allocate the authorized increase in operating revenue to each customer class and rate schedule within each in the manner prescribed in the Final Commission Order.

8. That annual differences between \$2.0 million and actual expenditures for environmental costs shall be deferred as a regulatory asset where expenditures are greater than \$2.0 million per year or as a regulatory liability where expenditures are less than \$2.0 million on an annual basis and accumulated for book and ratemaking purposes until UGI Utilities, Inc. – Gas Division's next base rate case, consistent with Settlement Paragraph 20.

9. That the Billing Determinants in Settlement Paragraph 21 are approved.

10. That UGI Utilities, Inc. – Gas Division shall submit an update to Exhibit No. 6, Schedule 1 of the Commission's Bureau of Investigation & Enforcement, as well as to UGI Utilities, Inc. – Gas Division's filing requirement Attachment SDR RO-14, pages 1-2, to the Commission's Bureau of Investigation & Enforcement, the Office of Consumer Advocate, and the Office of Small Business Advocate, no later than January 1, 2017 per Settlement Paragraph 24.

11. That UGI Utilities, Inc. – Gas Division's proposed accounting treatment for its Next Information Technology Enterprise is approved.

12. That UGI Utilities, Inc. – Gas Division's Other Post-Employment Benefits credit balance of \$10.027 million be amortized using a 10-year schedule.

13. That for purposes of this base rate case, UGI Utilities, Inc. – Gas Division's as-filed end-of-year rate base methodology is approved.

14. That, as of the effective date of the Commission's Final Order in this case, UGI Utilities, Inc. – Gas Division is eligible to include plant additions in the Distribution System Improvement Charge once DSIC-eligible account balances exceed the levels projected by UGI Gas at September 30, 2017 on SDR-ROR-14, consistent with Settlement Paragraph 28.

15. That the \$27 million increase permitted by this Order includes \$2.659 million for the first year's spending for UGI Utilities, Inc. – Gas Division's Energy Efficiency and Conservation Plan.

16. That, for purposes of this rate case, UGI Utilities, Inc. – Gas Division's as-filed depreciation rates are accepted.

17. That the current returned check fee of \$20.00 is retained consistent with Settlement Paragraph 31.

18. That the revenue allocations in Settlement Paragraph 32 are approved.

19. That the customer charges in Settlement Paragraph 33 are approved.

20. That the block design in Settlement Paragraph 34 is approved.

21. That Customer Assistance Program costs are recoverable using the Universal Service Plan Rider up to and including 8,700 customers. For costs incurred for customers over the 8,700 participation level, UGI Utilities, Inc. – Gas Division shall offset the CAP credits and actual pre-program arrearages by 9.4%, consistent with Settlement Paragraph 35.

22. That the Technology and Economic Development Rider is approved as a three-year pilot program, consistent with Settlement Paragraph 36. Six months before the end of the three-year pilot program, UGI Utilities, Inc. – Gas Division will report on the economics of the Technology and Economic Development Rider. If UGI Utilities, Inc. – Gas Division filed a general base rate case during the three-year pilot period, UGI Utilities, Inc. – Gas Division will provide information, as part of its initial filing, showing the pro forma rate of return on incremental investment for Technology and Economic Development Rider customers as a subclass in its filed cost of service study.

23. That a five-year total spending cap for the Energy Efficiency and Conservation Plan shall be \$27 million. Rate Schedule LFD customers shall be responsible for no more than \$1.1 million in costs over the life of the Energy Efficiency and Conservation Plan. UGI Utilities, Inc. – Gas Division shall establish its Energy Efficiency and Conservation Plan consistent with the Settlement terms.

24. That UGI Utilities, Inc. – Gas Division establish four EE&C rate classes: (1) R/RT; (2) N/NT; (3) DS; and (4) LFD. Each rate class will have costs allocated to it for the programs for which that rate class is eligible, consistent with Settlement Paragraph 38.

25. That UGI Utilities, Inc. – Gas Division develop targeted EE&C Plan marketing materials for existing residential multi-family and new multi-family residential construction consistent with Settlement Paragraph 39.

26. That UGI Utilities, Inc. – Gas Division inform customers who contact it or its EE&C Conservation Service Providers with interest in participating in the EE&C Plan that they might qualify for LIURP and be referred accordingly, consistent with Settlement Paragraph 40.

27. That UGI Utilities, Inc. – Gas Division submit an annual report to the Commission relating to the results of the EE&C Plan, including documentation of program expenditures and participation, measurement and verification of energy savings under the Plan, and total resource cost test results for individual programs and overall Plan with and without the

economic effects of carbon taxes and DRIPE in the evaluations of cost effectiveness of the programs.

28. That recoverable utility costs for the non-residential prescriptive program, the non-residential retrofit program, and the non-residential new construction program over the five-year life of the EE&C Plan shall be limited to 55% of the overall costs for these three programs in the aggregate, consistent with Settlement Paragraph 42. Grant funding will be considered a source of participant funding. To the extent that UGI Utilities, Inc. – Gas Division deems that utility contributions in excess of 55% of overall program cost are required to achieve desired participation levels, UGI Utilities, Inc. – Gas Division may voluntarily make the necessary contributions without EE&C cost recovery. EE&C programs targeted at multi-family customers who take service under non-residential rate classes will be comparable to similar programs targeted at multi-family customers who take service under residential rate classes, in terms of the levels of participant contributions, incentive, program administration, marketing, inspection, and evaluation costs.

29. That all appliances and equipment qualifying for rebates or incentives under the EE&C plan must meet or exceed U.S. Department of Energy "EnergyStar" Minimum Standards to the extent such standards exist.

30. That UGI Utilities, Inc. – Gas Division shall hold an annual stakeholder meeting to discuss the EE&C plan's progress and potential modifications, consistent with Settlement Paragraph 45.

31. That UGI Utilities, Inc. – Gas Division implement the Universal Service program changes within ninety (90) days of the effective date of the rate increase arising from the present proceeding.

32. That UGI Utilities, Inc. – Gas Division shall hold a collaborative meeting with the parties to this proceeding to review and comment on the implementation of the Universal Service program changes, after which UGI Utilities, Inc. – Gas Division shall file a status report with the Commission no later than one hundred and fifty (150) days after the

effective date of the rate increase arising from the present proceeding, consistent with Settlement Paragraph 46.

33. That UGI Utilities, Inc. – Gas Division shall increase LIURP funding by the percentage distribution rate increase for the residential customer classes reflected in Settlement Paragraph 32, conditioned on full recovery of LIURP as proposed through USP Rider mechanism per the proposal of UGI Utilities, Inc. – Gas Division, consistent with Settlement Paragraph 47.

34. That UGI Utilities, Inc. – Gas Division modify proposed Tariff Rule 9.1(b) to state that "UGI Gas will use financial information from the customer provided within the most recent twelve (12) month period to determine if that customer exceeds the 250% federal poverty level threshold." UGI Gas will not require customer information to verify income if the customer has established income verification through receipt of Low-Income Home Energy Assistance Program (LIHEAP) within the past 12 months or if the customer is currently participating in CAP.

35. That UGI Utilities, Inc. – Gas Division will encourage Community Based Organizations to conduct additional outreach to customers to enhance CAP solicitation efforts, consistent with Settlement Paragraph 49.

36. That UGI Utilities, Inc. – Gas Division inform applicants and customers of the opportunity for security deposit waiver for income-qualified households, and will request income information on the initial call to establish new service and/or to restore previously terminated service. Once the customer confirms low-income eligibility, the deposit will be waived and any previously collected deposit applied to the account, consistent with Settlement Paragraph 50.

37. That UGI Utilities, Inc. – Gas Division screen for eligibility and/or refer all individuals calling regarding a payment arrangement or similar credit-related issue to appropriate Universal Service programs.

38. That UGI Utilities, Inc. – Gas Division include in applicable reports to the Commission those customers who are in default of their payment arrangements but are still active customers, to improve reporting of customers enrolled in deferred payment plans, consistent with Settlement Paragraph 52.

39. That UGI Utilities, Inc. – Gas Division revise its training materials to clarify that it does not require a low-income customer to enroll in a Universal Service program to qualify for waiver of a security deposit, and that the only requirement for such a waiver is income verification.

40. That UGI Utilities, Inc. – Gas Division clarify its tariff language to reflect that it does not require annual income to establish eligibility for cold weather shutoff protections and that it does accept annualized income (i.e., 30-days, 90-days) to establish winter shutoff protections.

41. That UGI Utilities, Inc. – Gas Division consult with its Community-Based Organizations and investigate the feasibility of using alternative communication means, such as telephone, fax, email, etc., to process applications and verify income for the purposes of security deposit waiver and enrollment in Universal Service programs, consistent with Settlement Paragraph 55. Chosen alternatives will be described in UGI Utilities, Inc. – Gas Division's next triennial Universal Service filing.

42. That UGI Utilities, Inc. – Gas Division translate the two remaining program documents into Spanish and require Community Based Organizations to have access to Spanish language interpretation services if 5% or more of the residents in the portion of the utility's service territory served by the Community Based Organization speak Spanish as based on U.S. Census data.

43. That UGI Utilities, Inc. – Gas Division revise its form of identification policy to provide that before initiating service, an applicant must provide: (1) one valid government issued photo identification; (2) two valid alternative forms of identification, including one with a photo if the government-issued photo identification is not available; or (3)

the applicant's Social Security Number. The term "government issued photo identification" includes photo identifications issued by foreign governments.

44. That UGI Utilities, Inc. – Gas Division clarify its medical certificate procedures to reflect its practice of faxing the medical certificate form directly to a physician's office when provided the fax number by the customer.

45. That UGI Utilities, Inc. – Gas Division clarify its medical certificate procedures to state that its medical certificate form is not the only means of obtaining a medical certificate and that it will accept any writing that contains the information required by 66 Pa.C.S. Chapter 14, and 52 Pa.Code Chapter 56, consistent with Settlement Paragraph 60.

46. That UGI Utilities, Inc. – Gas Division revise its Protection From Abuse procedures to clarify that the protections apply to applicants and customers who are PFA plaintiffs as well as applicants or customers who are subject to a court order issued by a court of competent jurisdiction in the Commonwealth of Pennsylvania where that order provides clear evidence of domestic violence against the applicant or customer.

47. That UGI Utilities, Inc. – Gas Division update its training documents to remove any suggestion that PFAs are only applicable to traditional husband-wife spousal relationships and to clarify that anyone who submits a PFA or order of a court of competent jurisdiction of the Commonwealth of Pennsylvania which provides clear evidence of domestic violence will be granted the protections available under 66 Pa.C.S. Chapter 14 and 52 Pa.Code Chapter 56.

48. That UGI Utilities, Inc. – Gas Division update its PFA policy language to clarify the applicable statutory and regulatory protections for victims of abuse as demonstrated by submission of a PFA or an order of competent jurisdiction of the Commonwealth of Pennsylvania which provides clear evidence of domestic violence.

49. That UGI Utilities, Inc. – Gas Division institute the use of externally-sourced domestic violence training such as training by a local domestic violence program or the

Pennsylvania Coalition Against Domestic Violence, for its management and training department, followed by annual training on domestic violence for its customer service representatives.

50. That UGI Utilities, Inc. – Gas Division clarify its procedure to reflect that receipt of a valid PFA will prevent a balance transfer into the name of the PFA holder unless that PFA holder is the customer, as defined in the Commission's applicable regulations, for that account.

51. That UGI Utilities, Inc. – Gas Division shall, where the balance is accrued jointly in a PFA plaintiff and third-party's name, assign and bill the debt first to the third-party. The PFA plaintiff may be held ultimately responsible for the accrued debt if, after 90 days, collection attempts are unsuccessful against the third-party. This process will be implemented with UGI Utilities, Inc. – Gas Division's implementation of its new computer system scheduled for fall 2017.

52. That UGI Utilities, Inc. – Gas Division modify its PFA handling procedures to further ensure the confidentiality of PFA information, consistent with Settlement Paragraph 68.

53. That the proposed modification to Tariff Rule 1.4 is approved consistent with Settlement Paragraph 69.

54. That the proposed modification to Tariff Rule 2.3 is approved consistent with Settlement Paragraph 70.

55. That the proposed modification to Tariff Rule 2.6 is approved consistent with Settlement Paragraph 71.

56. That the proposed modification to Tariff Rule 4.1 is approved consistent with Settlement Paragraph 72.

57. That the proposed modification to Tariff Rule 5.1 approved consistent with Settlement Paragraph 74.

58. That the proposed modification to Tariff Rule 5.7 is approved consistent with Settlement Paragraph 73.

59. That the proposed modification to Tariff Rule 7.3 is approved consistent with Settlement Paragraph 75.

60. That the proposed modifications to the definitions of Daily Flow Directive and Operational Flow Order are approved consistent with Settlement Paragraphs 76 and 77.

61. That the proposed modification to Tariff Rule 20.4 is approved consistent with Settlement Paragraph 78.

62. That the proposed modification to Choice Tariff Section 8.2 is approved consistent with Settlement Paragraph 83.

63. That the proposed modification to the Rate N Merchant Function Charge and Rate N Purchase of Receivables is approved consistent with Settlement Paragraph 84.

64. That the proposed increase in the Gas Procurement Charge is approved consistent with Settlement Paragraph 85.

65. That the proposal to eliminate the Customer Choice Switching Fee is approved consistent with Settlement Paragraph 86.

66. That the proposed adjustments to monthly balancing for natural gas suppliers is approved consistent with Settlement Paragraphs 87 and 88.

67. That the investigation at Docket No. R-2015-2518438 is terminated upon the filing of the approved tariffs.

