PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	R-2016-2580030
Office of Consumer Advocate	:	C-2017-2585510
Office of Small Business Advocate	:	C-2017-2589092
Michael Ochs	:	C-2017-2596537
Barbara McDade	:	C-2017-2612914
	:	
v.	:	
	:	
UGI Penn Natural Gas, Inc.	:	

RECOMMENDED DECISION

Before
Mary D. Long
Administrative law Judge

TABLE OF CONTENTS

I. INTRODUCTION

In a base rate proceeding for UGI Penn Natural Gas, Inc. (UGI PNG), the parties reached a full settlement of their disputes. UGI PNG sought an increase of $21.7 million in its initial filing with the Commission. The settlement is designed to produce a net increase in the annual distribution operating revenues of UGI-PNG in the amount of $11.25 million, based upon a fully projected future test year ending September 30, 2018. It is recommended that the Commission approve the settlement without modification.

A. Customer Class Rate Impacts

1. Residential Heating

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

2. Commercial Heating

Under the Settlement Rates, the monthly Rate N/NT customer charge will increase $1.59 (or 4.9%) from $32.41 to $34.00. This increase in the customer charge is in lieu of the Company's proposed monthly distribution customer charge of $37.50, which represented a $5.09 increase (or 15.6%). In addition, under the Settlement Rates, the bill for a typical Commercial Heating customer that uses 29.6 Mcf per month will increase by $10.78 per month, from $194.25 to $205.03 (or 5.6%), including purchased gas costs and other surcharges. In comparison, in the Company's proposed filing, the bill for a typical Commercial Heating customer that uses 29.6 Mcf per month would have increased by $22.35 per month from $194.25 to $216.60 (or 11.5%), including purchased gas costs and other surcharges.

3. Industrial General

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

II. HISTORY OF THE PROCEEDINGS

On January 19, 2017, UGI Penn Natural Gas, Inc. (UGI PNG or Company) filed Tariff Gas – PA. P.U.C. Nos. 9 and 9-S to become effective March 20, 2017, seeking a general rate increase calculated to produce $21.7 million (10.4%) in additional annual revenues. UGI PNG is also proposing to cancel the UGI PNG Tariff Gas – PA. P.U.C. Proctor and Gamble Tariff No. 1 as part of this filing.

By order entered February 9, 2017, the Commission suspended the filings pursuant to Section 1308(d) of the Public Utility Code,[1] until October 20, 2017, unless permitted by Commission Order to become effective at an earlier date. Additionally, in a written statement Vice Chairman Place requested the parties to address seven directed questions as part of the base rate proceeding.

---

[1] 66 Pa.C.S. § 1308(d).

The Commission's Bureau of Investigation and Enforcement (BIE) entered its appearance in these proceedings, while the Office of Consumer Advocate (OCA)[2] and the Office of Small Business Advocate (OSBA)[3] filed complaints. Petitions to intervene were filed by the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA) and the Commission on Economic Opportunity (CEO).

A prehearing conference was held on Friday, February 17, 2017. Counsel for the Company, the statutory parties, and the interveners attended the conference. The parties agreed on a litigation schedule for the exchange of written testimony and evidentiary hearings were scheduled to begin on June 6, 2017, in Harrisburg.

The Department of Defense and All Other Federal Executive Agencies filed a petition to intervene on March 17, 2017. The petition as to the Department of Defense was granted on March 22, 2017, and as to All Other Federal Executive Agencies was granted on April 6, 2017. Direct Energy Business, LLC, Direct Energy Services, LLC and Direct Energy Business Marketing, LLC (collectively, Direct Energy), filed a petition to intervene, which was granted on April 26, 2017.

Two consumers, Michael Ochs[4] and Barbara McDade[5] filed formal complaints.

The active parties undertook discovery and served written direct, rebuttal and surrebuttal testimony. By email dated June 5, 2017, the parties informed me that they had reached an agreement on all issues. The evidentiary hearing convened as scheduled on June 6, 2017. The active parties waived cross-examination and the written testimony of UGI-PNG, OCA, OSBA, CAUSE-PA and CEO was admitted into the record.

---

2 C-2017-2585510.

3 C-2017-2589092.

4 C-2017-2596537.

5 C-2017-2612914.

The Joint Petition for Settlement of UGI-PNG, OCA, OSBA, CAUSE-PA, CEO and Direct Energy and their statements in support were filed on June 30, 2017.[6] By order dated July 3, 2017, the parties who did not actively participate in the litigation were provided an opportunity to object or join the Settlement. These responses were due on or before July 14, 2017. Mr. Ochs returned a notice stating that he wished to join the settlement. No other objections or concurrences were received. By order dated July 17, 2017, the record was closed.

III. STIPULATED FACTS

1. On January 19, 2017, UGI PNG filed Tariff Gas – PA. P.U.C. Nos. 9 and 9-S to be effective for service rendered on or after March 20, 2017, proposing changes to UGI PNG's base retail distribution rates designed to produce an increase in revenues of approximately $21.7 million, based upon data for a fully projected future test year ending September 30, 2018.

2. On February 9, 2017, the Commission issued an Order suspending Tariff Gas – PA. P.U.C. Nos. 9 and 9-S until October 20, 2017, unless permitted by Commission Order to become effective at an earlier date. Together with the suspension order, the Commission issued the Statement of Vice Chairman Andrew G. Place directing the Parties to address specific questions as part of this distribution base rate case.

3. UGI PNG is a jurisdictional public utility providing natural gas distribution service to customers in thirteen counties in the Commonwealth of Pennsylvania.

4. BIE 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

---

[6] The Department of Defense and All Other Federal Executive Agencies did not serve any testimony and on June 1, 2017 filed a notice of non-participation in the proceedings.

No. M-2008-20071852 (Order entered August 11, 2011).

5. Complainant OCA is authorized to represent the interests of consumers before the Commission. Act 161 of 1976, 71 P.S. § 309-2.

6. Complainant OSBA 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. §§ 399.41399.50.

7. CAUSE – PA is an unincorporated association 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. CEO 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.

9. Direct Energy is a natural gas supplier that operates in UGI PNG's service territory.

10. The United States Department of Defense and all other Federal Executive Agencies (collectively, the DOD) operate several installations that are served by UGI PNG. On June 1, 2017, the DOD submitted a Notice of Nonparticipation in this proceeding.

11. Michael Ochs is a self-represented complainant residing at 1633 Scott Street, Williamsport, PA 17701. Docket No. C-2017-2596537.

12. Barbara McDade is a self-represented complainant residing at 863 North Street, Luzerne, PA 18709. Docket No. C-2017-2612914.

13. The active parties engaged in extensive discovery throughout the proceeding.

14. BIE, OCA, OSBA, CAUSE-PA, and CEO submitted testimony in opposition to various portions of the Company's base retail distribution rate filing.

15. The active parties submitted a total of five rounds of testimony in support of their respective positions, including: Company direct testimony, Company supplemental direct testimony, other parties' direct testimony, rebuttal testimony, and surrebuttal testimony.

16. The active Parties agreed to a settlement that fully resolves all issues among them.

17. The active Parties are in full agreement that the Settlement is in the public interest as a reasonable resolution of their respective interests and should be approved.

IV. DESCRIPTION OF THE SETTLEMENT

The parties filed a Joint Petition for Settlement (Settlement). The petition includes the terms of Settlement, which include terms related to the revenue requirement, revenue allocation and rate design, energy efficiency and conservation, universal service programs and natural gas supplier issues. The Settlement includes Appendices A-E.

Appendix A	Pro Forma Tariff Supplement
Appendix B	Proof of Revenues
Appendix C	Proposed Findings of Facts
Appendix D	Proposed Conclusions of Law
Appendix E	Proposed Ordering Paragraphs

V. TERMS OF THE SETTLEMENT

The settlement petition includes the usual "additional terms and conditions" that are typically included in base rate settlements. These terms, which, among other things, protect the parties' rights to file exceptions if any part of the Settlement is modified, condition the agreement upon approval by the Commission and provide that no party is bound in future rate cases by any particular position taken in this case. These additional terms and conditions will not be repeated here verbatim. The reader is directed to the petition.[7]

The settlement includes the following terms:[8]

Revenue Requirement

> 17. UGI PNG will be permitted to submit a revised tariff supplement designed to produce an annual distribution rate revenue increase of $11.25 million, to become effective for service rendered or and after October 20, 2017. The increase in annual distribution rate revenue is in lieu of the as filed net increase of approximately $21.7 million. The settlement as to revenue requirement shall be a "black box" settlement, except for the items that follow.
>
> 18. Proof of Revenue: Proof of Revenue will be updated to include a total of $2.583 million of interruptible revenue in present rates and $2.583 million of revenue for settlement rates for these charges.
>
> 19. Environmental:
>
> (a) This Settlement includes an annual amount of $1.25 million for recovery of future environmental costs. Annual differences between $1.25 million and actual expenditures incurred after October 1, 2016 shall be deferred as a regulatory asset (where expenditures are greater than $1.25 million per year) or as a regulatory liability (where

---

[7] ¶¶ 56-60.

[8] The numbering is the same as the Joint Petition for Settlement for ease of reference.

expenditures are less than $1.25 million on an annual basis) and accumulated for book and ratemaking purposes until UGI PNG's next base rate case in the manner described in the direct testimony of Kindra Walker, UGI PNG Statement No. 2, p. 18.

(b) This Settlement includes an annual amount of $639,000 for recovery, over a five-year amortization period, of a $3.195 million deferred balance of environmental costs that has accumulated pursuant to the deferral reconciliation mechanism authorized by the Commission at Docket No. R-2008-2079660. Any under- or over-amortized balance as of the end of the historic test year in the Company's next general rate filing shall be rolled into the accumulated deferred balance authorized in Paragraph 19(a.)

20. Billing Determinants: Billing determinants will be based on the Company's original filing, UGI PNG Exhibit E, Proof of Revenue.

21. 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 PNG's rate base.

22. Accumulated Deferred Income Taxes (ADIT): UGI PNG's ADIT pro-rationing methodology is adopted.

23. Test Year Plant: The Company shall submit an update to BIE Exhibit No. 3, Schedule 1 as well as UGI PNG's filing requirement Attachment SDR ROR-14, to BIE, OCA, and OSBA no later than January 1, 2018, which update should include actual capital expenditures, plant additions, and retirements by month from October 1, 2016 through September 30, 2017, and an additional update for actuals from October 1, 2017 through September 30, 2018, shall be filed no later than January 1, 2019.

24. Depreciation Rates: For purposes of this Settlement, UGI PNG's as-filed depreciation rates are accepted.

25. Distribution System Improvement Charge (DSIC):

(a) As of the effective date of rates in this proceeding, UGI PNG will be eligible to include plant additions in the DSIC once DSIC-eligible account balances exceed the levels projected by UGI PNG at September 30, 2018 on UGI PNG Exhibit No. HGB-3. 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.

(b) For purposes of calculating its DSIC, UGI PNG shall use the equity return rate for gas utilities contained in the Commission's most recent Quarterly Report on the Earnings of Jurisdictional Utilities as updated each quarter consistent with any changes to the equity return rate for gas utilities contained in the most recent Quarterly Earnings Report, consistent with 66 Pa. C.S. § 1357(b)(3), until such time as the DSIC is reset pursuant to the provisions of 66 Pa. C.S. § 1358(b)(1).

26. Cloud Based program: The Company shall be permitted to capitalize the development costs for cloud-based information systems, as described on pages 16-17 of the direct testimony of Megan Mattern, UGI PNG Statement No. 3, and the Company shall begin depreciation of the costs after the systems are placed in service.

<u>Revenue Allocation and Rate Design</u>

27. The Joint Petitioners agree to the following Revenue Allocation:

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

28. Customer Charges:

(a) Rate R/RT: $13.25;
(b) Rate N/NT: $34.00;
(c) Rate DS: $229.00;
(d) Rate LFD: $700.00.

29. Block Design: The Company's proposal to eliminate blocked design for Rate R/RT is adopted.

30. 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 PNG will report on the economics of the TED Rider. UGI PNG will maintain records of all TED Rider investments and TED Rider negotiated rates. In the event that UGI PNG 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 PNG will provide information, as part of its initial filing, showing the pro forma rate of return on incremental investment for TED Rider customers as a sub-class in its filed cost of service study.

Energy Efficiency and Conservation Plan

31. The Company's Energy Efficiency and Conservation (EE&C) Plan is approved as revised below.

32. The Company agrees to allocate the New Construction (NC) Program Budget between a Residential New Construction (RNC) budget component and a Non-Residential New Construction (NNC) budget component. All customers taking service under the N or NT rate classes will be served out of the NNC budget component. All customers taking service under the R or RT rate classes will be served out of the RNC budget component.

33. The Company agrees that, over the five-year term of the EE&C Plan, 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 NNC component of the NC program shall be limited to 55 percent of the overall aggregated costs for the NP program, NR program, and NNC component of the NC program. Grant funding will be considered a source of participant funding. To the extent that UGI PNG deems that utility contributions in excess of 55 percent of

overall program costs are required to achieve UGI PNG's desired participation levels, UGI PNG may voluntarily make the necessary contributions without EE&C cost recovery.

34. The Company agrees that if, at the end of its five-year EE&C Plan, the Company does not achieve a minimum of 75% of the aggregated projected Total Resource Benefit Cost Ratio of the total EE&C Portfolio of 1.29 (inclusive of CHP) as set forth in table 16 of its EE&C Plan, it will forego recovery of 35% of the administrative costs expended by the Company over the five year period of the EE&C Plan. In determining compliance with this provision, any LIURP projects completed using the $100,000 in EE&C funding identified in Paragraph 36 below, shall be deemed to have a TRC value equal to the average projected residential TRC value of 1.56 identified in the EE&C Plan filing.

35. The Company further agrees that it will not seek to recover in rates EE&C administrative costs in excess of the projections included in its filing.

36. The Company agrees to designate $100,000 per year of its EE&C Plan, to be collected through the EE&C Rider, for low income projects that will be administered through the Company's Low Income Usage Reduction Program (LIURP). The Company also will increase its LIURP budget by $50,000, which amount will be recovered through the Universal Service Plan (USP) Rider mechanism. These amounts will take effect on January 1, 2018, are in addition to the increase in LIURP budget agreed to in Paragraph 39 below, and will continue for each year in which the EE&C Plan remains in place.

37. Going forward, UGI PNG will revise written applications and marketing materials for the Energy Efficiency Conservation Plan to inform customers that free, comprehensive usage reduction services are available to income-qualified households and provide a direct phone number to contact UGI PNG to pursue enrollment if the customer believes that they may qualify.

Universal Service

38. The Company agrees to a base Customer Assistance Program (CAP) participation of 6,500 participants for the purpose of assessing CAP cost offsets. For any and all CAP customers exceeding the 6,500 participation level on an average annual basis, UGI PNG shall offset the CAP Credits and actual pre-program arrearages by 14.1%.

39. The Company will increase its annual LIURP budget by the percentage distribution rate increase for the residential customer classes reflected in the
Revenue Allocation set forth in Paragraph 27 above ($48,450 [5.7% x $850,000]).

(a) This increase in LIURP budget is conditioned on full recovery of LIURP costs through the USP Rider mechanism as proposed by the Company.

(b) If approved as part of this settlement, the Joint Petitioners agree that this funding increase will take effect on January 1, 2018.

(c) Annual funds not expended will rollover and be added to the funds available for expenditure in the following year(s).

(d) The Joint Petitioners agree to not challenge UGI PNG's LIURP funding level in effect for the Company's 2018-2020 USECP period, except in the event that the Company files an intervening base rate case or the Public Utility Commission or the General Assembly take action affecting LIURP, in which case the Joint Petitioners are free to propose any recommendation including an additional increase in LIURP funding.

40. The Company will include in its Universal Service and Energy Conservation Plan (USECP) a provision to allow customers, and applicants for service, to apply and/or recertify for the Customer Assistance Program (CAP) over the phone, with provision of supportive documentation through mail or other means (including but not limited to fax, email, or text messaging) that are reasonably available to the Company's Community Based Organization (CBO) serving that portion of the Company's service territory. In-person appointments with a CBO will remain available to those who choose to apply in person. The Company will indicate in its USECP which means of communication are available for which CBOs.

41. The Company intends to continue to use CBOs to assist in the implementation of its 2018-2020 USECP.

42. The Company 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.

43. The Company will include the following provisions in its USECP filing to address the repair or replacement of its residential customers' inoperable furnaces within the UGI PNG service territory:

> (a) The Company will request that the Commission explicitly approve a waiver of the LIURP regulation payback requirements for furnace repair or replacement.
>
> (b) The Company will increase the per-job LIURP funding cap to $11,000 where furnace replacement is necessary.
>
> (c) The Company will request that the Commission explicitly approve a waiver of the LIURP high use criteria for customers needing furnace repair or replacement.
>
> (d) Beginning on January 1, 2018, and subject to Paragraph 44 below, the Company will set aside $150,000 annually out of the general LIURP budget for furnace repair and replacement projects. For the first two years, any unused amounts will rollover to the next year's budget for furnace repair and replacement projects. Should there continue to be amounts to rollover after two years, any remaining rollover amounts will rollover to the Company's general LIURP budget. The Joint Petitioners agree and understand that these provisions are subject to and conditioned upon Commission approval as part of the Company's USECP.

44. The Company will host an in-person collaborative meeting to discuss inter-utility coordination of LIURP services within six (6) months of the date of settlement, and a second meeting within six (6) months of the first meeting.

> (a) The Company will invite the following groups, organizations, and entities to attend the meeting: all Parties to this proceeding; representatives from PPL Electric; representatives from First Energy; representatives from the Department of Community and Economic Development Weatherization Assistance Program; representatives from the local Community Based Organizations which administer UGI PNG's LIURP.

(b) One topic for the in-person collaborative meeting will be the repair or replacement of inoperable furnaces. One goal for the collaborative meeting will be to work towards a solution to reduce inoperable gas furnaces in the UGI PNG service territory.

(c) The Joint Petitioners reserve the right to discuss seeking additional funding for furnace repair and replacement prior to 2020.

(d) The Company, if it deems appropriate, would seek Commission approval for a USECP change to implement collaborative consensus terms.

45. The Company will propose in its upcoming USECP that it directly provide CBOs with low-income indicated customers lists for direct CAP solicitation, starting in year two of the 2018-2020 USECP. Customers will be informed of their ability to opt-out from provision of their information to third parties by a general opt-out option on the Customer Information System portal and by information printed on bills.

46. The Joint Petitioners agree that, in addition to the current uses, Hardship Funds through Operation Share may be utilized to pay for reconnection fees for customers or applicants who are otherwise income-qualified for the program, regardless of the customer or applicant's prior or current enrollment in the Company's CAP.

47. Except for Universal Service issues dealt with in this settlement agreement, the Joint Petitioners retain the right to fully participate in the Commission's review of the Company's 2018-2020 USECP, and may provide comment or testimony on any issue which may arise in the course of that proceeding.

Natural Gas Supplier Issues

48. Tariff Rule 20.4 - Maximum Daily Excess Balancing Charge. Reduce the Intentional Imbalances penalty from GDI x 10 to GDI x 5.

49. Tariff Rule 20.5 - Operational Flow Orders and Daily Flow Directives. For failure to comply with Operational Flow Orders and Daily Flow Directives, reduce the penalty charge from $50.00 per Mcf to $25.00 per Mcf.

50. Unauthorized Overrun. Rate Schedules LFD and XD (Original Pages 82 and 85). Keep charge for Unauthorized Overruns at $27.50 per Mcf rather than increasing it to $50.00 per Mcf.

51. Capacity Assignment:

(a) The Company's capacity release proposal, as described in UGI PNG Statement No. 13, is approved.

(b) The Company will hold a collaborative open to all interested parties no later than 30 days from the date of the final order approving this settlement to address any concerns regarding capacity releases.

(c) Issues pertaining to the assignment of capacity to Rate DS and LFD customers may be addressed in the Company's annual Purchased Gas Cost proceedings or a base rate case.

(d) Except for issues pertaining to least cost procurement review, any changes to the Company's capacity release program resulting from the collaborative, the annual Purchased Gas Cost proceedings or a base rate case will apply prospectively only.

VI. LEGAL STANDARDS

The purpose of this investigation is to establish rates for the Companies' customers that are just and reasonable pursuant to Section 1301 of the Public Utility Code.[9]

A public utility seeking a general rate increase is entitled to an opportunity to earn a fair rate of return on the value of the property dedicated to public service.[10] In determining what constitutes a fair rate of return, the Commission is guided by the criteria set forth in *Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia*,[11] and

---

9 66 Pa.C.S. § 1301.

10 *Pennsylvania Gas & Water Co. v. Pa. Pub. Util. Comm'n*, 341 A.2d 239 (Pa.Cmwlth. 1975).

11 262 U.S. at 679 (1923).

Federal Power Commission v. Hope Natural Gas Co.[12] In *Bluefield*, the United States Supreme 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.[13]

The Commission encourages parties in contested on-the-record proceedings to settle cases.[14] Settlements eliminate the time, effort and expense of litigating a matter to its ultimate conclusion, which may entail review of the Commission's decision by the appellate courts of Pennsylvania. Such savings benefit not only the individual parties, but also the Commission and all ratepayers of a utility, who otherwise may have to bear the financial burden such litigation necessarily entails.

By definition, a "settlement" reflects a compromise of the positions that the parties of interest have held, which arguably fosters and promotes the public interest. When active parties in a proceeding reach a settlement, the principal issue for Commission

---

12 320 U.S. at 591 (1944).

13 262 U.S. at 692-93.

14 *See* 52 Pa.Code § 5.231.

consideration is whether the agreement reached suits the public interest.[15] In their supporting statements, the Joint Petitioners conclude, after extensive discovery and discussion, that this Settlement resolves most of the contested issues in this case, fairly balances the interests of the company and its ratepayers, is in the public interest, and is consistent with the requirements of the Public Utility Code.

The Joint Petitioners note that with only a few select exceptions further explained below, the Settlement revenue requirement is a "black box" amount. Under a "black box" settlement, parties do not specifically identify revenues and expenses that are allowed or disallowed. The Joint Petitioners believe that "black box" settlements facilitate agreements as parties are not required to identify specific determinations of each matter at issue.

Not every issue was of equal concern to every party. Accordingly, each of the Joint Petitioners' statements in support did not necessarily address each and every aspect of the Settlement.

The parties were instructed to answer the directed questions posed by Vice Chairman Place at the February 17, 2017 Public Meeting in question and answer form in an appendix to their respective statements in support.[16] In compliance with my directive, UGI-PNG included an Appendix A to its statement in support. Direct Energy also addressed Question 3, in its statement in support.[17] No other party provided specific answers to the Vice Chairman's questions in their statements in support.

After a full consideration of the terms of the Settlement and the statements in support, I recommend that the Commission adopt the Settlement without modification.

---

15 *Pa. Pub. Util. Comm'n v. CS Water and Sewer Associates*, 74 Pa. PUC 767, 771 (1991). *See also Pa. Pub. Util. Comm'n v. York Water Co.*, Docket No. R-00049165 (Order entered October 4, 2004); *Pa. Pub. Util. Comm'n v. Philadelphia Electric Company*, 60 Pa. PUC 1 (1985).

16 N.T. 14, 54.

17 Direct Energy Statement in Support p. 6.

VII. DISCUSSION OF THE SETTLEMENT

A. Revenue Requirement

1. "Black Box" Revenue Requirement

UGI PNG explained that the requested revenue increase is necessary because of substantial additions and investments that it has made since its last rate increase in 2009.[18] For example, UGI PNG has made nearly $400 million in system investments, increasing the Company's rate base by nearly 31 percent. These investments were necessary to serve new residential and commercial customers; connect customers converting to natural gas; accelerate the replacement of aging gas plant infrastructure; upgrade and improve system segments and modernize facilities; and install and upgrade supporting information technology, all as part of growing and maintaining a safe and reliable distribution system and providing quality customer service. While UGI PNG has received a return on and of certain portions of these investments through its Distribution System Improvement Charge (DSIC), UGI PNG's DSIC charge has reached the current cap of five percent (5%) of distribution revenues, effectively preventing a reasonable return on additional DSIC eligible investment amounts outside of filing a base rate case. Since its last base rate case, UGI PNG has adopted modest annual wage and salary adjustments and will continue to do so, where reasonable, and has experienced other general price increases for necessary products and services.

UGI PNG contends that the revenue increase is essential to UGI PNG's continued ability to attract capital on reasonable terms and provide safe and reliable service to customers. Although UGI PNG has implemented significant cost containment measures, implemented efficiency enhancements including major strides toward integrating its operations with those of its affiliates UGI Utilities, Inc. – Gas Division (UGI Gas) and UGI Central Penn Gas, Inc. (CPG), and seen substantial customer growth over time, the growth in operating and capital

[18] *See* Docket No. R-2008-2079660 (Order entered August 27, 2009).

investment, along with experienced and anticipated declines in per customer usage, have caused UGI PNG to be unable to earn a fair rate of return on its investment at present rate levels.

In the Company's view, the $11.25 million proposed revenue increase under the Settlement falls well within the range of positions set forth by UGI PNG, BIE, and OCA and is clearly reasonable. The proposed revenue increase is supported by substantial evidence, is just and reasonable, is in the public interest, and should be adopted without modification.

OCA and OSBA concur that the rate increase under the proposed Settlement represents a result that would be within the range of likely outcomes in the event of full litigation of the case. OCA emphasizes that the proposed increase, when accompanied by other important conditions contained in the Settlement, yields a result that is just and reasonable under the facts of the case.

BIE submits that the Settlement balances the interests of the Company, its customers, and the Joint Petitioners in a fair and equitable manner and presents a resolution for the Commission's adoption that best serves the public interest. Other Joint Petitioners expressed similar support for the Settlement and recommended the Commission's approval.

2. Exceptions to "Black Box" Settlement

Generally, BIE fully supports the Settlement provisions agreed to by the Parties as set forth in the Settlement regarding the Revenue Requirement issues identified as exceptions to the "black box." These include (a) Interruptible Revenue; (b) Environmental Remediation; (c) Billing Determinants; (d) Repairs Allowance; (e) Accumulated Deferred Income Taxes; (f) Test Year Plant; (g) Depreciation Rates; (h) Distribution System Improvement Charge; and, (i) Cloud Based Program. BIE fully supports the negotiated provisions set forth in the Joint Petition. While the overall revenue requirement achieved in this Settlement is a "black box" compromise, the non-black box Settlement provisions are well within the parameters advanced on the evidentiary record and reflect a full compromise of all revenue-related issues raised by the Joint Petitioners. Further, BIE believes that this Settlement maintains the proper balance of the interests of all of the Joint Petitioners. Ratepayers will continue to receive safe and reliable service at reasonable rates while allowing UGI PNG sufficient additional revenues to meet its operating expenses and address its infrastructure needs while providing the opportunity to earn a reasonable rate of return.

a. Interruptible Revenue

The treatment of revenue related to the Company's interruptible gas service customers was a point of great contention among the parties. UGI PNG currently provides interruptible gas service to approximately 33 customers under contracts voluntarily entered into that have rates based on the alternatives available to such customers, whether that is an alternate fuel option, an alternative natural gas solution, i.e. physical bypass, or a locational alternative, i.e. moving production to a different facility with lower energy costs.

In this proceeding, UGI PNG proposed to continue its past practice in which it charges interruptible service customers value of service prices and retains or absorbs any difference between cost of service and value of service pricing between rate cases. Specifically, UGI PNG annualized its interruptible revenues for the Fully Projected Future Test Year (FPFTY) based on the blended results of two reasonable cost of service studies, or $0.945 million. Under this proposal, the Company would be at-risk if the actual level of interruptible revenue falls below $0.945 million. Conversely, if the actual level of interruptible revenue is above $0.945 million, the Company would retain the excess amount and could use it for capital projects to provide service to customers or use it to offset inflation and attrition between rate cases, and thereby avoid or delay future rate cases.

BIE argued the Company position was based on speculative risk factors and that UGI PNG had not demonstrated that any of the circumstances would actually occur. OCA contended that that historic revenues from the interruptible class well exceeded $945,000 and allowing rates to be set on the basis of that amount would mean not only that the Company's other customers would have to make up for the revenue not attributed to interruptible customers, but any interruptible revenue received in excess of $945,000 would flow directly to the Company as profit. OSBA shared the view that the present rates interruptible revenue should be based on a reasonable forecast for those revenues, rather than the cost-based proposal advanced by the Company.

In exchange for resolving other issues, the Company agreed to the adjustments proposed by, OCA, and OSBA on this issue and agreed that the proof of revenue will include a total of $2.583 million of interruptible revenue in present rates and $2.583 million of revenue for settlement rates. (Settlement ¶ 18). OCA observes that providing as it does for interruptible revenues equal to the Company's budgeted amount for the FPFTY, the Settlement avoids negative impacts on other rate classes, prevents potentially excessive Company returns and is consistent with the level of interruptible revenues experienced in recent years.

b. Environmental Remediation Expense

i. Annual Environmental Expense

UGI PNG's environmental remediation expense claim enables the Company to fully recover the costs incurred in connection with its obligations under a Consent Order Agreement (COA) with the Pennsylvania Department of Environmental Protection (DEP) to remediate former manufactured gas plant (MGP). In its filing, UGI PNG claimed $1.442 million for environmental remediation expense based on the simple average of the last three years of cash expenditures for MGP remediation expense.

The issue regarding the treatment of environmental remediation was discussed by BIE witness D.C. Patel. BIE witness Patel noted this claimed expense represents the Company's amortization of unrecovered environmental remediation costs that exceed the $1,100,000 annual allowance approved in UGI PNG's last base rate case at Docket No. R-2008-2079660.[19]
Mr. Patel recommended a reduction of the Company's claim based on a correction to the total

[19] *See* UGI PNG's FPFTY claim for Unrecovered Environmental Remediation Expense at UGI PNG Book V, Exh. A-Fully Projected, Sch. D-8.

expense amount prior to amortization and a change in the number of years (from 3 years to 5 years) over which the excess expenses should be amortized.

In settlement, the Parties agreed to an annual amount of $1.25 million for recovery of future environmental costs. (Settlement ¶ 19(a)). The $1.25 million annual MGP remediation expense falls well within the range of positions set forth by UGI PNG and BIE and is reasonable. UGI PNG submits that this Settlement provision is in the public interest because it is consistent with the consent order agreement from the Pennsylvania Department of Environmental Protection. OCA agrees that this expense is reasonable because it represents an amount of expense that the Company is likely to incur annually under the COA.

Further, the Settlement provides that annual differences between $1.25 million and actual expenditures incurred after October 1, 2016, shall be deferred as a regulatory asset (where expenditures are greater than $1.25 million per year) or as a regulatory liability (where expenditures are less than $1.25 million on an annual basis) and accumulated for book and ratemaking purposes until UGI PNG's next base rate case. (Settlement ¶ 19(a)). This cost treatment should protect customers from over-recoveries and UGI PNG from under-recoveries for this non-revenue producing and non-expense reducing category of expense.

ii. Amortization of Environmental Expense Incurred Since Last Rate Case

In the Company's 2009 rate case at Docket No. R-2008-2079660, the Commission adopted a reconciliation mechanism that permitted the Company to accumulate, defer, and obtain ratemaking recovery for costs that exceeded the $1.1 million annual level less any cost shortfall in years where actual expenditures fell below the $1.1 million level. In this proceeding, UGI PNG proposed to recover $3.939 million, over a three-year amortization period ($1.313 million per year). This amount of environmental remediation expense claim represents the difference between the amount of manufactured gas plant remediation expenditures incurred by UGI PNG since the 2009 rate case and the $1.1 million included in rates over the same period.

BIE argued that the Company's claim should not include the amount of manufactured gas plant remediation expenditures to be spent in fiscal year 2017. BIE also recommended a five-year amortization period, rather than a three-year period based on BIE's contention that the expected period between future base rate case filings will be five years rather than three years.

In the Settlement, the Joint Petitioners agreed to include an annual amount of $0.693 million for recovery, over a five-year amortization period. (Settlement ¶ 19(b)). This Settlement provision reflects that both BIE and UGI PNG agreed that there was a total balance of $3.195 million of deferred environmental costs that had accumulated since the Company's last rate case. UGI PNG submits that this Settlement provision is in the public interest because it is consistent with the deferral reconciliation mechanism authorized by the Commission at Docket No. R-2008-2079660. Although BIE and UGI PNG disagreed on the proper amortization period, the Settlement provides that any under- or over-amortized balance as of the end of the historic test year in the Company's next general rate filing shall be rolled into the accumulated deferred balance and claimed in the Company's next rate case. (Settlement ¶ 19(b)).

UGI PNG submits that this Settlement provision is in the public interest. This cost treatment should protect customers from over-recoveries and UGI PNG from under-recoveries for this non-revenue producing and non-expense reducing category of expense. OCA concurs that this recovery provision is in the public interest.

c. Billing Determinants

In its filing, UGI PNG annualized sales by developing sales and revenue adjustments reflective of projected customer counts and annual expected usage per customer as of September 30, 2018. UGI PNG reviewed historic usage data and applied regression analysis techniques. Usage per customer was projected based on a fifteen-year regression analysis of actual usage and degree day information for the period from December 1, 2003 through October 31, 2016. As part of its filing, the Company estimated a decline in usage per customer for Rates R/RT or N/NT due to the proposed EE&C Plan.

In the Settlement, the Joint Petitioners agree that the billing determinants will be based on the Company's original filing, UGI PNG Exhibit E, Proof of Revenue. (Settlement ¶ 20). The billing determinants agreed to in the Settlement are reasonable and properly reflect a decline in usage as projected by the Company's historic usage data. In OCA's view, the billing determinants result in realistic assumptions about trends in customer usage, and will result in rates that are just and reasonable.

d. Repairs Allowance

In its filing, UGI PNG proposed to continue to normalize the repairs tax expense deduction for federal income tax purposes over the book life of the plant giving rise to the deduction.

As part of the Settlement, the Joint Petitioners agree that the repairs allowance should be normalized with a corresponding increase in Accumulated Deferred Income Taxes (ADIT) and a related reduction to UGI PNG's rate base. (Settlement ¶ 21). UGI PNG points out that the Settlement continues the practice that UGI PNG has followed since the adoption of the repairs allowance in 2009. In the Company's view, normalization benefits customers by ensuring that they receive a fair portion of the benefit of the repairs allowance deduction through rate base, over the life of the plant giving rise to the deductions, regardless of when UGI PNG files a rate case. Moreover, normalizing the repairs allowance deduction provides an important source of cash flow to UGI PNG that can be used to support UGI PNG's large, related capital spending program and reduce outside borrowing.

e. Accumulated Deferred Income Taxes

In its filing, UGI PNG included a FPFTY ADIT pro-rata calculation required under Treasury Regulation 1.167(l)-1(h)(6)(ii) that is necessary to be in compliance with Internal Revenue Service (IRS) normalization requirements. Although it did not oppose using the ADIT pro-rationing methodology, the OCA recommended an adjustment to the Company's ADIT claim based on an average of the Future Test Year (FTY) and FPFTY ADIT balances to be consistent with OCA's proposal to use an average rate base test year balance. In rebuttal, the Company explained use of an average ADIT for the Company's FPFTY claim was not appropriate and inconsistent with longstanding Pennsylvania ratemaking practice and policy.

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

BIE does not oppose the proposed treatment of ADIT.

f. Test Year Plant

UGI PNG's rate base claim in this case was based on the sum of the closing plant balances as of September 30, 2016 Historic Test Year (HTY), plus the budgeted plant additions for the years ending September 30, 2017 (FTY) and September 30, 2018 (i.e. the FPFTY), less budgeted FTY and FPFTY plant retirements. Stated otherwise, UGI PNG claimed an end-of-test-year rate base for the FPFTY.

Both the OCA and OSBA recommended an average FPFTY rate base. OSBA observes the Commission has not yet promulgated rules with respect to how costs should be determined in a fully projected future test year (FPFTY) environment, notably with respect to whether "annualization" calculations are necessary, how FPFTY rate base should be determined, and how the base level of capital expenditures should be established for DSIC purposes. OSBA's witness, Mr. Knecht explained why annualization is no longer necessary, why average FPFTY rate base was appropriate, and offered certain recommendations regarding the base levels for the DSIC.

As part of the Settlement, the Joint Petitioners agree that UGI PNG will submit updates to reflect the actual capital expenditures, plant additions, and retirements at the end of the FTY and FPFTY. (Settlement ¶ 23). In OCA's view, these reporting requirements ensure that the Company's forecasted capital expenditures, plant additions and retirements were reasonable under the circumstances.

OSBA concurs with the proposed Settlement because the Settlement essentially adopts a continuation of the status quo, at least with respect to resetting the DSIC. (Settlement ¶ 25). The OSBA respectfully submits that Commission resolution of these issues would serve regulatory economy, and reduce debate in base rates proceedings.

BIE does not oppose the proposed reporting requirements.

g. Depreciation Rates

UGI PNG's depreciation studies, accrued depreciation claim, and annual depreciation expense claim were set forth in UGI PNG Statement No. 6 and UGI PNG Exhibits C (Historic), C (Future), and C (Fully Projected).

The OCA's witness, James S. Garren, recommended changes to the Company's depreciation rates in his testimony and an adjustment to depreciation expense. Mr. Garren's recommended adjustment along with an additional recommended adjustment related to the removal of two individual projects by the OCA's accounting witness, Dante Mugrace, resulted in a $2,219,103 recommended decrease to the Company's proposed depreciation expense in this matter.

As part of the Settlement, the Joint Petitioners agree to accept UGI Gas' as-filed depreciation rates. (Settlement ¶ 24). UGI PNG submits that this Settlement provision is in the public interest because it properly accounts for the Company's outlook and plans, including the Commission-approved LTIIP, and is consistent with the depreciation procedure used by most other Pennsylvania utilities.

The OCA submits that the acceptance of the Company's as-filed depreciation rates in this matter is reasonable in light of other Settlement provisions and within the range of likely outcomes had this matter been fully litigated. Similarly, BIE does not oppose the as-filed depreciation rates.

h. Distribution System Improvement Charge

The Settlement provides that, as of the effective date of rates in this proceeding, UGI PNG will be eligible to include plant additions in the DSIC, once eligible account balances exceed the levels projected by UGI PNG at September 30, 2018. The Joint Petitioners agree that this provision is included solely for purposes of calculating the DSIC and is not determinative for future ratemaking purposes of the projected additions to be included in rate base in a FPFTY filing. (Settlement ¶ 25(a)).

UGI PNG explains that this Settlement provision also appropriately accounts for the fact that base rates in this case are based on a FPFTY and recognizes that the new base rates include the DSIC-eligible plant additions projected as of September 30, 2018. Because the new base rates are based on projected plant additions, which may be different than actual plant additions, this Settlement provision reasonably permits the DSIC to become effective once the DSIC-eligible account balances exceed the levels projected by UGI PNG on September 30, 2018. This will ensure UGI PNG is able to timely recover the reasonable and prudent capital costs incurred to repair, improve, or replace its aging distribution infrastructure that is placed in service between base rate cases, which, in turn, provides customers with enhanced gas-service safety and reliability benefits. Finally, UGI PNG notes that this settlement provision is identical to other settlement provisions the Commission has adopted for other public utilities using a FPFTY.[20] For these reasons, UGI PNG submits that this settlement provision is just, reasonable, and in the public interest and, therefore, should be approved without modification.

---

[20] *See, e.g., Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2014-2406274 (Opinion and Order entered Dec. 10, 2014); *Pa. PUC v. UGI Utilities, Inc. – Gas Division*, Docket No. R-2015-2518438 (Opinion and Order entered Oct. 14, 2016).

OCA also takes the position that this provision is in the public interest at this time. Because the revenue requirement was settled, ratepayers benefit from identifying the year-end balance to establish a certain level of plant additions for DISC calculation purposes. The Settlement is also clear that this provision is 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 filing utilizing a fully forecasted future test year. As such, the OCA reserves its rights to litigate this issue in future cases.

OSBA expressed some concerns with the Company's capital expenditure forecast. OSBA points out that in proposing a revenue requirement in this proceeding, the Company assumes a significant acceleration of capital spending in both the current year (aka the future test year) and the fully projected future test year. The OSBA recognizes that natural gas distribution companies (NGDCs) must make significant investments in their distribution systems in order to replace obsolescent and unsafe assets. However, the OSBA is very concerned about the approach used by the Company, which resulted in very modest investments in the years immediately following the last base rates case (during the depths of the Great Recession) and a huge acceleration of spending just in time for the current base rates filing (and the recent run up in mains replacement costs). The OSBA believes that a more stable plan for capital spending would better serve both ratepayers and utility shareholders.

Nevertheless, OSBA deemed that it was unlikely to prevail on this issue in litigation due to a lack of any similar testimony from other parties, and the Settlement accepts the Company's capital spending forecast in Paragraph 25 of the Settlement for the purpose of setting the DSIC base level. It is the OSBA's view that the overall approved revenue requirement in the Settlement reflects, to a modest extent, OSBA's concerns in this respect.

The Settlement further provides that, for purposes of calculating its DSIC, UGI PNG shall use the equity return rate for gas utilities contained in the Commission's most recent Quarterly Report on the Earnings of Jurisdictional Utilities as updated each quarter consistent with any changes to the equity return rate for gas utilities contained in the most recent Quarterly Earnings Report, consistent with 66 Pa.C.S. § 1357(b)(3), until such time as the DSIC is reset pursuant to the provisions of 66 Pa.C.S. § 1358(b)(1). (Settlement ¶ 25(b)). UGI PNG maintains the Settlement provision is in the public interest because it satisfies the Commission's request that parties to a rate case settlement identify a return on equity for DSIC computation purposes.[21] The OCA submits that this is reasonable in a black box revenue requirement settlement, as it provides a level of certainty in basis for the equity return that the Company will use in its DSIC calculation. BIE does not oppose the proposed treatment of DSIC eligible plant additions and the DSIC eligible account balances.

i. Cloud-Based Program

In its filing, UGI PNG proposed to capitalize certain costs incurred to develop new database assets in connection with the Company's use of cloud-based information services. Under generally accepted accounting principles (GAAP), such costs are ordinarily accounted for as operating expenses. In this case, however, the Company is requesting Commission approval to record these costs as a long-lived capital asset.

BIE recommended that the Company's FPFTY rate base claim should be reduced to remove the Company's cloud-based information services because the Company had not taken steps to begin implementation of the project. In rebuttal, UGI PNG explained the various steps it was taking to acquire and implement the cloud-based information services by September 2018. BIE accepted the Company's explanation and withdrew its recommended cloud-based information services adjustment in surrebuttal testimony.

No active Parties challenged or otherwise opposed the Company's proposed accounting treatment for the cloud-based information services. As such, the Joint Petitioners agreed that the Company shall be permitted to capitalize the development costs for cloud-based information systems, as described on pages 16-17 of the direct testimony of Megan Mattern, UGI PNG Statement No. 3, and the Company shall begin depreciation of the costs after the systems are placed in service. (Settlement ¶ 26).

---

[21] *See Pa. PUC v. UGI Utilities, Inc. – Gas Division*, Docket No. R-2015-2518438, p. 27 (Opinion and Order entered Oct. 14, 2016).

In its statement in support, the Company explained that this Settlement provision is in the public interest because it recognizes that the new databases will provide benefits to customers over extended periods of time and not just the period in which the costs are incurred. UGI PNG's cloud-based services will offer many advantages to traditional on premise software such as enhanced security, reliability, and flexibility. The databases created for the cloud-based services will be used by the Company to optimize various aspects of the utility service provided to its customers over, at a minimum, the life of the cloud-based service agreement. Moreover, the Company will retain ownership and control of these databases after the close of the cloud-based service for which they are being created and likely will use the information in subsequent applications. Accordingly, the costs for these cloud-based services should be capitalized and depreciated over the life that the databases will remain used and useful.

OCA submits that should UGI PNG implement a cloud-based information system, ratepayers will benefit from the Company beginning depreciation upon placement of the system in service rather an deferring the costs and depreciation until a future base rate case.

B. Revenue Allocation and Rate Design

Every rate proceeding consists of two parts. First, the overall revenues to which a utility is entitled must be determined. The second part of the process must determine how much of the total revenue requirement each rate class should bear. The allocation of revenue responsibility can be one of the more contentious parts of a rate proceeding because it is a "zero sum" exercise among the non-utility parties – any revenue responsibility not borne by a particular rate class must be borne by one or more other rate classes. While cost of service studies are the touchstone for reasonable allocations of revenue responsibility among rate classes,[22] the Commission has often stated that cost of service analyses must reflect the exercise

[22] *See Lloyd v. Pa. Pub. Util. Comm'n*, 904 A.2d 1010 (Pa.Cmwlth. 2006), *alloc. denied*, 916 A.2d 1104 (Pa. 2007) ("*Lloyd*").

of judgment and are as much a matter of art as of science.[23] For that reason, Pennsylvania appellate courts have repeatedly held that the Commission, in crafting a reasonable rate structure, is "invested with a flexible limit of judgment" and may establish just, reasonable and non-discriminatory rates within a "range of reasonableness."[24]

It is within this "range of reasonableness" where the parties focus on balancing the countervailing interests of the non-utility parties representing the various customer classes as well as a utility's interest in having a rate structure that recovers its cost of service, can be billed and administered efficiently, and is understandable to customers. Accordingly, this aspect of a rate proceeding is particularly well suited to achieving a reasonable overall outcome based on the give-and-take of the settlement process. That is precisely what occurred in this case, which resulted in complete settlement of all contested issues involving revenue allocation and rate design among an array of parties representing disparate interests.

1. Revenue Allocation

All of the parties had different proposals for how to allocate the revenue increase among the customer classes, as well as different proposals regarding how to scale back any reduction to the proposed increase. The Company employed a cost of service study which emphasized moving the various rate classes closer toward the system average rate of return based on the average of two class cost of service studies. OCA presented a counter-study which reflected a concern for gradualism and rate shock to residential consumers. While BIE's study resulted in a revenue allocation which was similar to UGI PNG's, it argued that the rates should be designed in order to avoid rate shock to some customer classes. OSBA also presented its own study which reflect the interests of its small business stakeholders.

The agreed upon revenue allocation is set forth in Paragraph 27 of the Settlement. All parties agree that the allocation is within the range of likely results if the case were litigated.

---

23 *See Pa. Pub. Util. Comm'n v. Philadelphia Suburban Water Co.*, 75 Pa. PUC 391, 440 (1991).
24 *U.S. Steel Corp. v. Pa. Pub. Util. Comm'n*, 37 Pa.Cmwlth. 173, 187, 390 A.2d 865, 872 (1978).

The Company observes that the resolution of the revenue allocation issue required significant effort and compromise by the Parties that submitted testimony on revenue allocation issues. The revenue allocation under the Settlement moves all classes closer to the system average return. BIE and OCA observe that the revenue allocation effectively moderates the increase initially proposed by the Company, and is therefore just and reasonable. UGI PNG concurs because 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.

OSBA explains its concurrence with the revenue allocation. First, the Company's XD and IS rates are generally negotiated rates, and the Company's proposed rate decreases reflected elimination of the DSIC and STAS charges. With the scale back of the rate increase, these rate decreases remained the same, but became larger as a percentage of the increase. In effect, the Company's proposal for these classes was accepted.

2. Rate Design (Customer Charges)

UGI PNG's proposed customer charges were also a significant point of contention among the parties. The primary objective of the Company's proposed rate design was to develop rate schedules that would produce the requested revenues when applied to forecasted conditions for the FPFTY. In its filing, UGI PNG proposed to continue movement toward distribution rates that are more reflective of how costs are incurred and to be competitive with prices of competing alternate-energy sources, including physical bypass of UGI Gas's system. While the Company believes that its original proposal for the changes in the customer charges for each rate class was justified, it conceded to the rates agreed upon in the Settlement, in part because of concessions made by other parties and in the context of reaching a settlement of all issues.

	Current UGI PNG Customer Charges	UGI PNG's Proposed Customer Charges	Settlement Customer Charges
Rate R/RT	$13.17	$18.50	$ 13.25
Rate N/NT	$32.41	$ 37.50	$ 34.00
Rate DS	$174.91	$ 290.00	$ 229.00
Rate LFD	$499.91	$700.00	$ 700.00

BIE generally asserts that the customers charges set forth in the Settlement are reasonable and in the public interest. BIE states that the Settlement maintains the proper balance of the interests of all parties. In BIE's view, the Settlement effectively moderates the rate increase initially proposed by the Company.

OCA focused on the proposed increase in the customer charge to residential ratepayers. OCA explains that it opposed the increase in the customer charge because it did not comport with the regulatory principle of gradualism and would disproportionally impact low volume customers that use small amounts of gas throughout the year and for virtually every residential customer during the non-heating months. OCA recommended that the customer charge be maintained at $13.17.

CAUSE-PA and CEO were also strenuously opposed to UGI PNG's original proposal. They explained that increasing the fixed monthly service charge limits customers' ability to reduce bills through conservation and consumption reduction, and undermines the goals of the Low-Income Usage Reduction Program (LIURP). High fixed fees also disproportionately impact low-income consumers, who use less natural gas than their higher income counterparts. If the fixed portion of a bill is high, those in smaller homes and apartments (which are more likely to be occupied by low-income families) will pay a disproportionate share of the distribution costs. The Settlement is in the public interest because it limits the proportional increase in the amount recovered through the fixed charge portion of the customer's bill – thereby protecting against inappropriate cost-shifting onto vulnerable low-income households.

OSBA focused on the proposed customer charges for the small business rate classes N/NT and DS. Simply put, OSBA objected to the Company's proposed customer charge increase for N/NT (on the basis of allocated customer costs) and DS (on the basis of rate gradualism) customers. The Settlement proposes customer charges that are much more in line with those advocated by OSBA in its expert testimony. Therefore, the OSBA supports the Settlement's proposed customer charges.

The Company also proposed to replace the current declining block structure with a single block volumetric charge. No parties opposed the Company's proposal and, as such, the Joint Petitioners agreed to eliminate the blocked design for Rate R/RT. (Settlement ¶ 29). The OCA supported the elimination of the declining block distribution charge for the residential class. The elimination of the blocked design and use of a single block structure for Rate R/RT will simplify customer bills and incentivize conservation, compared to a rate with a lower tail block for higher levels of usage.

3. Technology and Economic Development (TED) Rider

UGI PNG proposed to implement a five-year pilot Technology & Economic Development (TED) Rider identical to one recently proposed in UGI Gas's most recent base rate case, which was approved as three-year pilot under a Commission-approved settlement in that proceeding.[25] Both the OCA and OSBA recommended that the proposed TED Rider pilot be limited to three years, instead of five years. In the Settlement, the Joint Petitioners agreed to adopt the TED Rider as a three-year pilot program. In addition, the Joint Petitioners agreed that six months before the end of the three-year pilot program, UGI PNG will report on the economics of the TED Rider. Finally, the Joint Petitioners agreed that in the event that UGI PNG files a general base rate case during the three-year TED Rider pilot program, UGI PNG will provide information, as part of its initial filing, showing the *pro forma* rate of return on incremental investment for TED Rider customers as a sub-class in its filed cost of service study. (Settlement ¶ 30).

UGI PNG supports the revised TED Rider. The Company proposed a five-year pilot rather than a three-year pilot because the negotiation of complicated commercial agreements where the TED Rider might be expected to be applied takes some time, and often is followed by a facilities construction phase that will require additional time for the collection of meaningful data. However, the Company decided the three-year pilot period is consistent with

[25] Docket No. R-2015-2518438 (Opinion and Order entered October 14, 2016).

the TED Rider adopted for its affiliate UGI Gas Company and will allow the parties to track the economics of the TED Rider.

BIE fully supports the negotiated TED Rider as set forth in the Joint Petition. BIE believes that the Settlement maintains the proper balance of the interests of all parties. Accordingly, BIE submits that the proposed revenue allocation and rate design is in the public interest.

OCA also supports the proposed TED Rider in the Settlement because the three-year timeframe is adequate for receiving, gathering and analyzing data as it relates to the cost effectiveness of the proposed program. Along with the agreed upon reporting and recordkeeping requirements, OCA submits that it is reasonable to test the effectiveness of the TED Rider to determine whether in fact it will produce new gas load in a manner that benefits rather than burdens existing customers.

C. Energy Efficiency and Conservation Plan

In this proceeding, UGI PNG proposed a voluntary, five-year EE&C Plan, under which it would offer energy efficiency programs and a Combined Heat and Power (CHP) Program to reduce customers' energy consumption. The proposed EE&C Plan is largely based on the UGI Gas EE&C Plan approved by the Commission at Docket No. R-2015-2518438.

Several parties made recommendations and raised issues concerning the proposed EE&C Plan. The Joint Petitioners agreed to certain revisions to the proposed plan and that the Company's EE&C Plan should be approved as revised below. (Settlement ¶31-37). The five-year plan, as revised, includes certain benchmarks that the Company must meet, additional features aimed a low income consumers as well as other elements to reduce customers' energy consumption. The proposed energy efficiency programs are projected to reduce energy consumption by 4,161 Billion British Termal Units over the lifetime of the installed measures.

UGI PNG maintains that the EE&C Plan, as revised by this Settlement represents the results of the Joint Petitioners' extensive settlement discussions and good-faith compromises. As a whole, this section of the Settlement constitutes a reasonable compromise of the Joint Petitioners' competing positions and resolves all issues related to UGI PNG's proposed EE&C Plan. It also provides refinements and improvements in the proposed plan and, to a substantial degree, addresses the concerns raised by the parties.

BIE initially recommended that the EE&C Plan be rejected. BIE recommended that the Company's proposed EE&C Plan and associated cost estimates be rejected. Specifically, BIE recommended that the Company's EE&C Plan be disallowed for the following five reasons: (1) UGI Gas just implemented its EE&C Plan and has no data on activity yet; (2) NGDCs are not statutorily required to implement EE&C; (3) the EE&C Plan is not "essential" for the provision of safe and reliable service; (4) the current cost of natural gas may not encourage participation in EE&C measures; and (5) UGI PNG's affiliate, UGI CPG, did not implement an EE&C Plan in its 2010 base rate proceeding. However, with the revisions described below, BIE now supports these provisions of the Settlement.

The OSBA opposed the plan based on a long-standing concern that non-benefiting ratepayers are being asked to provide excessive subsidies to the program beneficiaries. Also, OSBA's witness, Mr. Knecht, identified certain inconsistencies in the Company's calculations. These inconsistencies required certain clarifications to the calculations, which are reflected in Settlement Paragraphs 32 and 33. While the OSBA would prefer that the beneficiaries of these programs pay their own way, the OSBA concludes that the Settlement represents a reasonable balancing of interests.

The parties representing consumers, OCA, CAUSE-PA and CEO also support the plan as described in the Settlement.

1. Allocation of New Construction Program Budget

The proposed New Construction (NC) Program aims to address natural gas efficiency in new construction and rehabilitation projects. The NC Program targets both residential and non-residential participants by providing incentives for going beyond just meeting applicable building codes. In the Settlement, the Joint Petitioners agreed that the Company will allocate the NC Program budget between a Residential New Construction (RNC) budget component and a Non-Residential New Construction (NNC) budget component. (Settlement ¶ 32). As a result, all customers taking service under the N or NT rate classes will be served out of the NNC budget component, and all customers taking service under the R or RT rate classes will be served out of the RNC budget component.

UGI PNG asserts this Settlement provision is in the public interest because it ensures that NC Program costs are properly allocated among the residential and non-residential classes, *i.e.*, avoids interclass subsidies. OCA agrees and supports this provision of the Settlement as it will ensure that funds budgeted for the New Construction Program are properly allocated between the Program's two components and that customers in each will be served from the funds set aside for their component. BIE did not advocate a specific position on this issue, but does not oppose the settled upon terms as stated in this Settlement as a full and fair compromise that provides OCA and CAUSE-PA, the UGI PNG ratepayers, the Company, and the other interested Joint Petitioners with resolution of these issues, all of which is in the public interest.

2. Nonresidential Program Spending

Under the Settlement, the Joint Petitioners agree to specific limits on the recoverable utility costs (including incentives, program administration, marketing, inspections and evaluation but excluding portfolio-wide costs) for the Nonresidential Prescriptive Program, the Nonresidential Retrofit Program, and New Construction Program over the five-year life of the EE&C Plan. (Settlement ¶ 33). This Settlement provision addresses OSBA's concern with participants' contribution to the costs of the EE&C Plan's nonresidential programs.

UGI PNG supports this revision because it also clarifies how those costs and contributions are calculated and gives UGI PNG the flexibility to voluntarily grant incentives in excess of the 55% threshold without EE&C cost recovery. Further, this Settlement provision ensures that the costs and customer contributions for nonresidential EE&C programs that target multifamily properties are aligned with the residential EE&C programs for multifamily customers. Finally, this Settlement provision is consistent with the EE&C Plan adopted in the UGI Gas 2016 base rate case Settlement.

3. Incentive to Reach EE&C Targets

To address BIE's concerns with the proposed EE&C Plans, the Joint Petitioners agreed to specific provisions that would incentivize the Company to reach its EE&C participation targets over the life of the five-year EE&C Plan. Specifically, the Settlement provides that if, at the end of its five-year EE&C Plan, the Company does not achieve a minimum of 75% of the aggregated projected Total Resource Benefit Cost Ratio of the total EE&C Portfolio of 1.29 (inclusive of CHP) as set forth in table 16 of its EE&C Plan, it will forego recovery of 35% of the administrative costs expended by the Company over the five-year period of the EE&C Plan.[26] (Settlement ¶ 34). Further, the Joint Petitioners agreed that the Company will not seek to recover in rates EE&C administrative costs in excess of the projections included in its filing. (Settlement ¶ 35). Similar to the penalty provisions in Act 129 applicable to electric distribution companies that fail to reach their EE&C targets, these Settlement provisions will provide a financial incentive for the Company to administer, monitor, and revise, if necessary, its EE&C Plan, to ensure that the voluntary programs are cost-effective.

BIE fully supports the negotiated incentives to reach EE&C targets as set forth in the Joint Petition. After extensive negotiations, the incentives are within the levels advanced on the evidentiary record and reflect a full compromise of all EE&C target incentive-related issues raised by the Parties.

[26] In determining compliance with this provision, the Joint Petitioners agreed that any LIURP projects completed using the $100,000 in EE&C funding identified in Paragraph 36 of the Settlement, shall be deemed to have a TRC value equal to the average projected residential TRC value of 1.56 identified in the EE&C Plan filing. (Settlement ¶ 34).

3. Low-Income Issues

OCA, CAUSE-PA, and CEO all raised concerns regarding what they viewed as an insufficient low-income component to the EE&C Plan as originally proposed. CAUSE-PA explained that without targeted low-income programming, low-income households would not have equitable access to the programs. As Mr. Miller explained in direct testimony: "[t]he vast majority of low-income customers (those not enrolled in CAP) will pay UGI's proposed 'EE&C Rider' … But as a practical matter, given the inelasticity of household income for those living in poverty discussed at length above, low-income customers are unable to meaningfully participate in the EE&C programming to derive comprehensive and quantifiable savings."[27] The only programming within UGI PNG's proposed EE&C portfolio which is potentially accessible to low-income households – home energy reports – have proven to yield very low savings which are quickly eroded as soon as the program ends. In CAUSE-PA's view, UGI's Low Income Usage Reduction Program (LIURP) – a required universal service program – is not a substitute for targeted low-income programming within UGI's voluntary EE&C Plan.

The OCA proposed a dedicated low-income program component be included in the EE&C Plan. Specifically, the OCA proposed that the low-income program be a direct install, weatherization program similar in design to the current LIURP, but with additional, unspecified measures. Both CAUSE-PA and CEO argued that UGI PNG should either exempt its confirmed low-income customers from paying the EE&C Rider or increase LIURP funding by the amount collected from low-income customers.

In recognition that there is not a separate low-income EE&C measure and that low-income customers will be required to pay the EE&C Rider, the Company agreed to designate $100,000 per year of its EE&C Plan, to be collected through the EE&C Rider, for low-income projects that will be administered through the Company's LIURP. The Company also will increase its LIURP budget by $50,000, which amount will be recovered through the

27 CAUSE-PA St. 1 at 37.

Universal Service Plan (USP) Rider mechanism. (Settlement ¶ 36). These LIURP amounts are in addition to the increase in LIURP budget agreed to in Paragraph 39 of the Settlement, and will continue for each year in which the EE&C Plan remains in place. In addition, UGI PNG agreed to revise written applications and marketing materials for the EE&C Plan to inform customers that free, comprehensive usage reduction services are available to income-qualified households and provide a direct phone number to contact UGI PNG to pursue enrollment if the customer believes that they may qualify. (Settlement ¶ 37).

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

BIE monitored, through OCA and CAUSE-PA, but did not play an active role, regarding the proposals and counter proposals offered by the parties throughout the settlement negotiations regarding EE&C low-income issues. BIE's interests and concerns regarding these issues pertain to the overall effect they may have on the entire base of UGI PNG ratepayers. However, BIE supports the negotiated EE&C Plan as described by the terms set forth in the Joint Petition. The Joint Petitioners discussed and negotiated the merits of the contested issues and reached a compromise within the parameters advanced in the evidentiary record that reflects a full and fair compromise of the issues raised by the parties. Accordingly, BIE submits that the settled upon EE&C Plan is in the public interest.

The OCA submits that dedicating some portion of the EE&C budget to low-income customers is essential to meeting the energy reduction (and consequently, budgetary) needs of this vulnerable population. This provision, when combined with other Settlement provisions increasing the annual LIURP budget, will provide meaningful additional assistance to this population and is in the interest of customers.

CAUSE-PA also supports the EE&C Plan as revised by the Settlement. Overall, in addition to promoting equity in the delivery of voluntary EE&C program benefits, the increased funding and enhanced outreach and referrals for low-income energy efficiency programming contained in paragraphs 36 and 37 of the Settlement will ensure that low-income consumers are better able to offset the impact of high energy costs through conservation and usage reduction.

CEO supports the Settlement. The specific low-income targeted components to the revised EE&C Plan provide additional help to low-income consumers.

D. Universal Services

UGI PNG did not propose any changes regarding the administration, services provided, or funding levels of its universal service programs in this distribution base rate proceeding. Rather than change any aspect of its Universal Service and Energy Conservation Plan (USECP) in this case, UGI PNG simply proposed to update (i) its CAP enrollment, and (ii) offset to CAP credits and pre-program arrearages for customers receiving shortfall credits above the projected enrollment. UGI PNG also explained that it voluntarily incorporated certain customer service-focused practices and procedures that were agreed to in the Commission-approved settlement of the UGI Gas 2016 base rate proceeding.

Several Parties to this proceeding recommended additional structural changes to UGI PNG's Universal Service programs. The OCA, CAUSE-PA and CEO made several proposals to the Company's universal service offerings, which, in the Company's view should be raised in the Company's next USECP filing to be made on or about July 1, 2017. Nevertheless, in the interest of achieving a full settlement, the Company indicated that it was willing to accept some of the proposals by committing to their inclusion in its next USECP filing.

The Universal Services section of the Settlement represents the results of the Joint Petitioners' extensive settlement discussions and good-faith compromises.

BIE did not object to the agreement to include certain provisions in the Company's USECP filing because the Joint Petitioners agree and understand that these proposed provisions are subject to and conditioned upon the Commission's approval as part of UGI PNG's USECP. Generally, BIE monitored the negotiations, through OCA and CAUSE-PA, but did not play an active role regarding the proposals and counter proposals offered by the parties throughout the settlement negotiations. BIE's interests and concerns regarding these issues pertain to the overall effect they may have on the entire base of UGI PNG ratepayers.

Nevertheless, in consideration of all of the above, BIE does not oppose the settled upon terms as stated in the Settlement as a full and fair compromise that provides the affected UGI PNG ratepayers, the remaining UGI PNG ratepayers, the Company, and the remaining interested Joint Petitioners with a proposed resolution of these issues, all of which is in the public interest.

1. CAP Enrollment

In its filing, UGI PNG projected that the CAP enrollment at September 30, 2018 will be 7,643. UGI PNG also proposed an offset to CAP credits and pre-program arrearages of 9.1% for CAP participants in excess of the proposed CAP base participation of 7,643. The OCA asserted that the Company's projected CAP participation rate was overstated due to temporary increases attributable to unusually cold weather and, therefore, recommended a base participation rate of 6,500 CAP participants for the purpose of assessing CAP cost offsets. The OCA also recommended a total CAP offset of 14.3% for CAP participants in excess of OCA's proposed CAP base participation of 6,500. In the Settlement, the Joint Petitioners agreed to base CAP participation of 6,500 participants for the purpose of assessing CAP cost offsets. For any and all CAP customers exceeding the 6,500 participation level on an average annual basis, UGI PNG shall offset the CAP Credits and actual pre-program arrearages by 14.1%. (Settlement ¶ 38).

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

Both OCA and CAUSE-PA recommended that UGI PNG take additional steps to increase the number of low-come customers enrolled in CAP. To address these concerns, UGI PNG agreed to allow customers to apply for CAP using additional alternative methods that are available and acceptable to the Company's Community Based Organizations (CBOs). (Settlement ¶ 40). Additionally, the Company will propose in its upcoming USECP that it directly provide CBOs with low-income indicated customer lists for direct CAP solicitation, unless the customer opts out. (Settlement ¶ 45). Finally, UGI PNG agrees that it will continue to use CBOs to assist in the implementation of its 2018-2020 USECP. (Settlement ¶ 41).

The Joint Petitioners agree that UGI PNG will continue to screen customers for eligibility and/or refer all individuals inquiring about a payment arrangement or similar credit-related issues to appropriate Universal Service programs. (Settlement ¶ 42). This provision recognizes UGI PNG's current screening and referral practices adhere to the requirements of Chapter 14 of the Public Utility Code and Chapter 56 of the Commission's Regulations, and also demonstrates UGI PNG's commitment to leveraging its current practices and procedures to increase CAP enrollment.

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

The OCA submits that these provisions are reasonable and in the interests of ratepayers, especially low-income ratepayers. Removing barriers to applying for or re-certifying for CAP allows those in need to more easily obtain assistance for which they qualify.

Furthermore, the provisions providing CBOs with low-income indicated customer lists, subject to the customers' rights to opt-out, for direct CAP participation will lead to greater CAP participation for consumers who are eligible for CAP but are not enrolled in the program. The opt-out provision addresses privacy concerns for individual consumers.

CAUSE-PA explained that the vast majority of UGI PNG's low-income customers are not enrolled in CAP. As such, those customers are likely to be negatively impacted by the increase in rates. UGI PNG's CAP enrollment levels are already low compared to other NGDCs – while its low-income termination rates are high – signaling a distinct and immediate need to bolster CAP enrollment to meet the needs of UGI PNG's low-income population. If left unaddressed, the pending rate increase combined with UGI PNG's CAP under-enrollment is likely to lead to an increase in terminations and resulting uncollectible expenses, and could have substantial impacts on the health, safety, and welfare of families and communities within UGI PNG's service territory. The Settlement contains a number of provisions designed to make it easier for low-income customers to be referred to and enroll in CAP, which remediates CAP under-enrollment, and better ensures equitable access to natural gas service in light of UGI PNG's rate increase. CAUSE-PA states these CAP enhancements serve a clear public purpose and are in the public interest, as they ensure that – notwithstanding the rate increase – low-income customers will be afforded equitable access to safe, stable, and affordable natural gas services. As such, these provisions should be approved as part of the comprehensive Settlement.

2. LIURP Budget

CEO recommended an increase to the annual LIURP budget from $850,000 to $1,214,000. CAUSE-PA recommended that the LIURP budget be increased proportionate to the base rate increase for residential customers.

In the Settlement, the Joint Petitioners agree that UGI PNG will increase LIURP funding, effective January 1, 2018, and will increase its annual LIURP budget by the percentage distribution rate increase for the residential customer classes reflected in the

Revenue Allocation set forth in Paragraph 27 of the Settlement ($48,450 [5.7% x $850,000]). UGI PNG will also rollover unspent LIURP funds for the following year(s). (Settlement ¶ 39).

The Company supports these measures. UGI PNG recognizes that LIURP weatherization projects help low-income customers reduce their natural gas usage and lower their monthly bills. This Settlement provision will allow UGI PNG to continue to increase the annual number of LIURP weatherization jobs it performs, while fully recovering the costs of administering the program.

The OCA submits that these provisions are in the interests of ratepayers. The increased LIURP budget and the provision providing that unspent amounts will carry over and remain in the account are in the interests of ratepayers, especially low-income ratepayers, who are disproportionately affected by energy costs. Programs such as LIURP are directed toward overcoming market barriers that prevent such households from implementing usage reduction measures on their own. Additionally, more low-income customers would be provided assistance to better manage their bills—resulting in lower bills, better ability to pay, and reduced CAP costs that are borne by non-CAP residential ratepayers.

CAUSE-PA observes that the increase in LIURP spending is separate and distinct from the enhanced LIURP funding discussed above to remediate the lack of dedicated low-income programming within UGI PNG's EE&C Plan. In addition, UGI PNG will rollover any unspent funds from its annual budget, and will add that amount to the funding available for LIURP services in future years. This increase in annual LIURP funding is squarely within the public interest, as it ensures that low-income households are better able to access usage reduction services to reduce their energy burden, thereby offsetting the negative impact of a rate increase on this particularly vulnerable population.

CEO also concurs. The Settlement increases funding for the LIURP program commensurate with the percentage rate increase for the residential class. This increase will help low-income customers deal with the effect of the rate increase resulting from the Settlement Rates.

3. LIURP Coordination and Furnace Repair/Replacement

OCA recommended that UGI PNG adopt and fund a "*de facto* heating" program as a component of the Company's EE&C Plan, which would be administered by the Company's LIURP CBOs. According to the OCA, there are customers in the Company's service territory with broken gas furnaces that are using less efficient electric and other types of heat in lieu of gas. The OCA asserts that such customers would benefit from a targeted program aimed at repairing those furnaces. Accordingly, the Joint Petitioners agreed that UGI PNG will propose in its USECP filing certain waivers and requests necessary to address the repair or replacement of its residential customers' inoperable furnaces within the UGI PNG service territory. (Settlement ¶ 43(a)-(c)).

The Joint Petitioners also agreed that, beginning January 1, 2018, and subject to Commission approval, UGI PNG will set aside $150,000 annually out of the general LIURP budget for furnace repair and replacement projects. Any unused amounts in the first two years will rollover to the next year's budget for furnace repair and replacement projects, and any remaining amounts after the first two years will rollover to the Company's general LIURP budget. (Settlement ¶ 43(d)).

UGI PNG supports these provisions because, in the Company's view, they properly recognize that certain waivers and approvals are required under current LIURP regulations to implement repair or replacement programs. Additionally, these Settlement provisions are in the public interest because, upon Commission approval as part of the USECP, they will provide additional funding to repair or replace broken gas furnaces of customers that are using less efficient electric and other types of heat in lieu of gas. OCA agrees.

The Joint Petitioners also agreed that the Company will host two collaborative meetings, open to all interested parties, including applicable electric distribution companies (EDCs), to discuss inter-utility coordination of LIURP services. One of the goals for the collaborative will be to work towards a solution to reduce inoperable gas furnaces in the UGI

PNG service territory. Based on the result of the collaborative, the Company, if appropriate, will seek Commission approval for a USECP change to implement collaborative consensus terms. (Settlement ¶ 44(a)-(d)).

The Company also views these provisions as in the public interest because they properly recognize the need to coordinate LIURP efforts with other utilities serving customers in UGI PNG's service territory. Through this collaborative process, the interested parties will be able to identify, evaluate, and address issues related to inter-utility coordination of LIURP services to further improve the availability of such services to low-income customers. This inter-utility coordination will be a benefit to both gas and electric customers located within the Company's service territory.

OCA concurs, stating that these provisions reserve an additional opportunity for stakeholders to discuss increased funding in regard to the furnace repair and replacement program via collaborative meetings. The OCA submits that these provisions are in the public interest.

CAUSE-PA also stresses the importance of these coordination provisions. There are many benefits to hosting a collaborative meeting of critical stakeholders – including regional EDCs, the state Weatherization Assistance Program, local CBOs, and the parties to this proceeding – to discuss coordination of usage reduction services. Mr. Miller explained the importance of bold coordination efforts:

> Coordination requires active engagement by utilities to create shared applications, coordinated site visits, and appropriate cost-sharing. The ultimate goal is to reduce administrative costs, consolidate customer interactions, and share in costs to reduce overall spending without compromising the quality of services delivered. Indeed, it is burdensome for a low income consumer to meet multiple demands on their time from both electric and gas utilities – requiring them to take time off work, arrange child care, and allow contractors into their home for multiple visits to perform a range of services. Whenever possible, visits to a low income customer's home should be consolidated and coordinated between utilities to ensure that work is done with as little impact to the customer's work and family life. Likewise, it is needlessly

> costly to send contractors out on multiple visits to the same home to perform similar work. Streamlined services ensure that a single audit can take place, which assesses for both natural gas and electric usage reduction measures.[28]

The structured collaborative contained within the Joint Settlement represents a first step toward improving LIURP service delivery, and should be approved because it is squarely in the public interest to leverage additional low-income programming while cutting costs.

4. Reconnection Fees

CAUSE-PA opposed the Company's proposal to increase the reconnection fee from $37 to $73. In rebuttal, the Company explained that it was proposing to adopt the same reconnection charge approved for UGI Gas in its 2016 base rate. The Company explained that the reconnection charge/fee was set at that time on a half hour of standard non-emergency technician labor costs that was based on a sampling of market prices at that time that equates to a $73.00 charge for a half hour. The increase in the reconnection fee is reasonably calculated to recoup some portion of the Company's costs in reconnecting service.

In the Settlement, the Joint Petitioners agreed that that in addition to the current uses, Hardship Funds through Operation Share may be utilized to pay for reconnection fees for customers or applicants who are otherwise income-qualified for the program, regardless of the customer or applicant's prior or current enrollment in the Company's CAP. (Settlement ¶ 46).

This Settlement provision, according to the Company, is in the public interest because it will mitigate the impact of the increased reconnection fee on low-income customers that, according to CAUSE-PA, are more likely than non-low-income customers to have their service involuntarily terminated.

CAUSE-PA agrees, explaining that is a critically important provision to the health, safety, and general welfare of our communities, as it ensures that low-income households

[28] CAUSE-PA St. 1-SR at 14-15.

will be able to reconnect to service without the added burden of a starkly increased reconnection fee. As such, this provision is in the public interest and should be approved.

OCA echoes CAUSE-PA's position because the use of Hardship Funds to pay for reconnection fees will provide assistance to low-income households in order to ensure essential utility service. Extending these Hardship Funds to individuals who are income-qualified for CAP regardless of their enrollment status further extends the assistance provided to consumers. The OCA submits that these provisions are in the public interest.

E. Natural Gas Supplier Issues

1. Tariff Rules (Settlement at ¶¶ 48-50)

As a part of its initial filing, UGI PNG proposed several revisions to, among other things, its General Terms for Delivery Service for Rate Schedules DS, LFD, XD, and IS (original Tariff Rule 16, proposed Tariff Rule 20), and its Choice Supplier Tariff (original Supplier Tariff 8-S, proposed Supplier Tariff 9-S) to standardize and harmonize, where applicable, its tariff provisions with those contained in the UGI Gas and UGI CPG tariffs, reflect best practices, add clarity, and update the UGI PNG tariff to reflect certain proposed changes to the Company's business practices.

Although no parties presented any testimony in opposition to the Company's proposed Tariff Rule 20 or proposed Supplier Tariff 9-S, Direct Energy raised certain issues and concerns during settlement negotiations. To address the concerns raised by Direct Energy, UGI PNG agrees to make several revisions to its balancing rules set forth in proposed Tariff Rule 20. First, UGI PNG agrees to reduce the intentional imbalances penalty in proposed Tariff Rule 20.4 from GDI x 10 to GDI x 5. (Settlement ¶ 48). Second, UGI PNG agrees to reduce the penalty charge in proposed Tariff rule 20.5 for failure to comply with Operational Flow Orders and Daily Flow Directives from $50.00 per Mcf to $25.00 per Mcf. (Settlement ¶ 49). Finally, UGI PNG agrees to keep the charge for Unauthorized Overruns at $27.50 per Mcf rather than increasing it to $50.00 per Mcf. (Settlement ¶ 50).

The Settlement would also reduce the penalty charge in Proposed Tariff Rule 20.5 from $50.00 per Mcf to $25.00 per Mcf for failure to comply with Operational Flow Orders and Daily Flow Directives. Again, Direct Energy believes that this level of penalty is adequate to encourage compliance and is less punitive than the existing charges. Further, this reduction mirrors the penalty charges approved during UGI Utilities' last base rate proceeding.

On the issue of Unauthorized Overruns, the Settlement would maintain those charges at their current level of $27.50 per Mcf, rather than increasing them to the proposed level of $50.00 per Mcf. From Direct Energy's perspective, the current level is adequate to address Unauthorized Overruns and no increase is warranted. Also, maintaining the charge at the current level would keep it more in line with the $25.00 per Mcf charge that is imposed by UGI Utilities.

The Company supports these revisions because these Settlement provisions balances UGI PNG's interest in preventing deliberate arbitrage through supplier imbalance transfers, and its suppliers' interests in cost-effectively balancing customer pools in response to curtailment requests.

Direct Energy also supports these Settlement provisions. Direct Energy believes that the Settlement is reasonable and in the public interest because it contains provisions designed to improve the overall functioning of the competitive retail market by reducing the costs incurred by customers participating in this market and by opening a dialogue with interested parties, including NGSs, about the Company's capacity release program. In general, the Settlement would align various practices of UGI PNG with those of UGI Utilities. Consistency in these provisions would ease Direct Energy's participation in these two competitive markets.

In Direct Energy's view, this level of penalties is sufficient to deter Intentional Imbalances without being overly punitive. Also, it is consistent with the penalty amount that UGI Utilities agreed to as part of its last base proceeding and was approved by the Commission.

BIE monitored, but did not play an active role, regarding the proposals and counter proposals offered by the parties regarding the Tariff Rules and provisions throughout this proceeding and the settlement negotiations regarding the Tariff Rules and provisions. BIE's interests and concerns regarding these issues pertain to the effect they may have on the entire base of UGI PNG ratepayers.

Nevertheless, in consideration of all of the above, BIE does not oppose the settled upon terms as stated in the Settlement as a full and fair compromise that provides the natural gas suppliers, the UGI PNG ratepayers, the Company, and the other interested Joint Petitioners with resolution of these issues, all of which is in the public interest.

The OCA took no position on these tariff rules and penalty provision changes but submits that maintaining consistency in these provisions across the UGI companies is reasonable.

2. Capacity Assignment (Settlement at ¶ 51)

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

NGSs might not make service offerings at all because they are unwilling to take such a risk. UGI PNG's proposal will help minimize this risk by providing NGSs with access to pipeline capacity having primary firm delivery rights.

In the Settlement, the Joint Petitioners agreed that Company's proposed Capacity Release Program should be adopted. (Settlement ¶ 51(a)). UGI PNG maintains that this Settlement provision is in the public interest because the Capacity Release Program will facilitate retail choice by providing NGSs with access to pipeline capacity having primary firm delivery rights to meet the needs of Rate DS customers and certain Rate LFD customers. The Joint Petitioners also agreed that: (i) UGI PNG will hold a collaborative open to all interested parties no later than 30 days from the date of the final order approving this Settlement to address any concerns regarding capacity releases, and (ii) issues pertaining to the assignment of capacity to Rate DS and LFD customers will be addressed in the Company's annual Purchased Gas Cost proceeding or a base rate case. (Settlement ¶ 51(b)-(d)).

The Company states that these Settlement provisions are in the public interest because they address any concerns regarding notice provided to potentially affected customer or NGS groups, as well provide a forum to address any concerns that potentially affected customers or NGS groups may have with the Capacity Release Program.

Particularly with the new components of the Company's capacity assignment program, this collaborative would provide a valuable opportunity for Direct Energy and other interested parties to raise questions or concerns to the extent that NGSs have not previously been consulted by UGI PNG about the changes. Also, the Settlement provision permitting issues related to the assignment of capacity to Rate DS and LFD customers to be addressed in either the Company's annual Purchased Gas Cost proceeding or a base rate case affords sufficient flexibility for Direct Energy and other interested parties to pursue desired changes to the capacity release program.

BIE monitored, but did not play an active role, regarding the proposals and counter proposals offered by the parties regarding capacity assignments throughout this proceeding. BIE's interests and concerns regarding these issues pertain to the effect they may have on the entire base of UGI PNG ratepayers. BIE does not oppose the settled upon terms as stated in the Settlement as a full and fair compromise that provides the natural gas suppliers, the UGI PNG ratepayers, the Company, and the other interested Joint Petitioners with resolution of these issues, all of which is in the public interest.

The OCA submits that these provisions of the Settlement are important as they will permit an open discussion of concerns stemming from capacity assignment generally and will allow concerns over calculation of the weighted average cost of capacity to be addressed in PGC proceedings. Having these provisions included in the Settlement is protective of consumer interests.

OSBA states that the Company proposed a mandatory assignment mechanism for asset-based firm upstream capacity for its Rate DS customers, and a voluntary capacity assignment mechanism for Rate LFD customers. OSBA expressed concern that the Capacity Release Program could require UGI PNG to acquire additional gas supply assets that could be at above system average cost, leading to upward pressure in PGC rates. In rebuttal, the Company agreed that as a result of this proposal UGI PNG will almost certainly have to procure additional gas supply assets, and that incremental gas supply assets generally cost more than that average of all system assets. However, UGI PNG explained that any such incremental costs are worth avoiding the potential problems that would result from a sustained and prolonged reduction in deliverability on an interstate pipeline system serving its system. Finally, the Company explained that in an era of significantly reduced overall PGC costs resulting from the shale gas revolution, any increased costs would be a small price to pay to help ensure the reliability of gas supplies for smaller volume customers.

OSBA supports Paragraph 51 of the Settlement which adopts the Company's proposal, but explicitly recognizes that issues related to this program may be addressed in future Section 1307(f) proceedings. In effect, should OSBA's concerns come to pass, Parties will at least be able to prospectively address the problem in future annual PGC proceedings. As such, the OSBA concludes that this is a reasonable resolution of this issue.

Direct Energy also supports the capacity assignment provisions of the Settlement. Direct Energy observes that the Settlement provides for approval of the Company's capacity release proposal, which includes: (1) mandatory assignment of upstream pipeline and storage capacity to Rate DS customers from the Company sufficient to meet their contract demand requirements; and (2) voluntary assignment to Rate LFD customers. Further, the Settlement obligates UGI PNG to conduct a collaborative within 30 days from entry of the final order approving the Settlement to address any concerns regarding capacity releases.

F. Recommendation

The proposed Settlement is reasonable and in the public interest. I therefore recommend approval without modifications. The Settlement represents just and fair compromises of the serious issues raised in this proceeding. After substantial investigation and discovery the parties have achieved a reasoned accord on a broad array of issues resulting in just and reasonable rates for service rendered by the Company.

The Settlement is a "black box" settlement. This means that the parties could not agree as to each and every element of the revenue requirement calculations. The Commission has recognized that "black box" settlements can serve an important purpose in reaching consensus in rate cases:

> We have historically permitted the use of "black box" settlements as a means of promoting settlement among the parties in contentious base rate proceedings. Settlement of rate cases saves a significant amount of time and expense for customers, companies, and the Commission and often results in alternatives that may not have been realized during the litigation process. Determining a company's revenue requirement is a calculation involving many complex and interrelated adjustments that affect expenses, depreciation, rate base, taxes and the company's cost of capital. Reaching an agreement between various parties on each component of a rate increase can be difficult and impractical in many cases.[29]

[29] *Pa. Pub. Util. Comm'n v. Peoples TWP LLC*, PUC Docket No. R-2013-2355886 (Opinion and Order entered December 19, 2013), at p. 27 (citations omitted).

Yet, it is also the Commission's duty to ensure that the public interest is protected. Therefore, there must be sufficient information provided in a settlement in order for the Commission to determine that a revenue requirement calculation and accompanying tariffs are in the public interest and properly balance the interests of ratepayers and utility stockholders.[30]

In reviewing the settlement terms and the accompanying statements in support, the Settlement provides sufficient information to support the conclusion that the revenue requirements and other settlement terms are in the public interest. The reduction in proposed revenue requirement increases, the revenue allocations, the reduction in the proposed residential customer charges, along with all of the other terms and conditions of the Settlement together represents a fair and reasonable settlement.

Also of note, the Settlement finds support from a broad range of parties with diverse interests. Each party represents a variety of interests. The Company advocates on behalf of its corporate interests and shareholders. The Office of Consumer Advocate is tasked with advocacy on behalf of consumers in matters before the Commission.[31] The Small Business Advocate represents the interests of the Commonwealth's small businesses.[32] The Bureau of Investigation and Enforcement is tasked with balancing these various interests and concerns on behalf of the general public interest. Each of these public advocates maintains that the interests of their respective constituencies have been adequately protected and they further represent that the terms of the Settlement are in the public interest.

Other interests were also represented and support the Settlement. These interests include, public interest groups representing low-income customers (CAUSE-PA and CEO), and natural gas suppliers (Direct Energy). These parties in a collaborative effort have reached

---

30 *See Pa. Pub. Util. Comm'n v. Pennsylvania Power Co*., 55 Pa. PUC 552, 579 (1982); *Pa. Pub.Util. Comm'n v. National Fuel Gas Dist. C*orp., 73 Pa. PUC 552, 603-605 (1990).

31 Section 904-A of the Administrative Code of 1929, Act of April 9, 1929, P.L. 177, *as amended,* 71 P.S. § 309-4

32 Section 399.45 of the Small Business Advocate Act, Act of December 21, 1988, P.L. 1871, 73 P.S. § 399.45.

agreement on a broad array of issues, demonstrating that the Settlement is in the public interest and should be approved.

Resolution of this proceeding by negotiated settlement removes the uncertainties of litigation. In addition, all parties obviously benefit by the reduction in rate case expense and the conservation of resources made possible by adoption of the proposed Settlement in lieu of litigation. The acceptance of the Settlement will negate the need for the filing of additional testimony by all parties, participation at in-person hearings, the filing of main and reply briefs, exceptions and reply exceptions, and potential appeals. These savings in rate case expense serve the interests of the Company and its ratepayers, as well as the parties themselves.

The individual complainants were served with a copy of the Settlement and offered an opportunity to comment or object to the terms and demonstrate why the case should be litigated rather than settled. UGI PNG represented that the Department of Defense and All Other Federal Executive Agencies advised that it had no objection to the Settlement. No objections were filed. Therefore, their due process rights have been fully protected and formal complaints must be dismissed for lack of prosecution.[33]

For all of the foregoing reasons, I find the Settlement embodied in the Joint Petition for Settlement is both just and reasonable and its approval is in the public interest. I recommend the Commission approve the Settlement without modification.

VIII. CONCLUSIONS OF LAW

1. The Commission has jurisdiction over the subject matter and the parties to this proceeding. 66 Pa.C.S. §§ 501, et seq.

---

[33] *See Schneider v. Pa. Pub. Util. Comm'n*, 479 A.2d 10 (Pa.Cmwlth. 1984) (Commission is required to provide due process to the parties; when parties are afforded notice and an opportunity to be heard, Commission requirement to provide due process is satisfied).

2. To determine whether a settlement should be approved, the Commission must decide whether the settlement promotes the public interest. *Pa. Pub. Util. Comm'n v. CS Water & Sewer Assoc.*, 74 Pa. PUC 767 (1991); *Pa. Pub. Util. Comm'n v. Philadelphia Electric Co.*, 60 Pa. PUC 1 (1985).

3. The Joint Petition for Settlement is in the public interest and is consistent with the requirements contained in *Lloyd v. Pa. Pub. Util. Comm'n*, 904 A.2d 1010 (Pa.Cmwlth. 2006).

IX. <u>ORDER</u>

THEREFORE,

IT IS RECOMMENDED:

1. That the Joint Petition for Settlement of All Issues at Docket No. R-2016-2580030, filed on June 30, 2017, by UGI Penn Natural Gas, Inc., the Commission's Bureau of Investigation and Enforcement, the Office of Consumer Advocate, the Office of Small Business Advocate, the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania, the Commission on Economic Opportunity, Direct Energy Business, LLC, Direct Energy Services, LLC and Direct Energy Business Marketing, LLC, is approved without modification.

2. That UGI Penn Natural Gas, Inc. shall be permitted to file a tariff supplement incorporating the terms of the Joint Petition for Settlement and changes to rates, rules and regulations as set forth in the *pro forma* tariff attached to the Joint Petition for Settlement as Appendix A, to become effective upon at least one (1) days' notice after entry of the Commission's Order approving the Joint Petition for Settlement, for service rendered on or after October 20 2017 so as to produce an annual increase in base rate operating revenues of not more than $11.25 million.

3. That the investigation at Docket No. R-2016-2580030 is terminated upon the filing of the approved tariffs.

4. That the formal Complaint filed by the Office of Consumer Advocate at Docket No. C-2017-2585510, is closed as satisfied.

5. That the formal Complaint filed by the Office of Small Business Advocate at Docket No. C-2017-2589092, is closed as satisfied.

6. That the formal complaint filed by the Michael Ochs at Docket No. C-2017-2596537, is closed as satisfied.

7. That the formal complaint filed by Barbara McDade at Docket No. C-2017-2612914, is dismissed.

Date: July 19, 2017

/s/
Mary D. Long
Administrative Law Judge