COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
COMMONWEALTH KEYSTONE BUILDING
400 NORTH STREET, HARRISBURG, PA 17120

BUREAU OF INVESTIGATION & ENFORCEMENT

July 14, 2021

Via Electronic Filing
Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Re: Pennsylvania Public Utility Commission v.
UGI Utilities, Inc. – Electric Division
Docket No. R-2021-3023618
I&E Pre-Served Testimony and Exhibits

Dear Secretary Chiavetta,

Consistent with Section 5.412a of the Commission's regulations, 52 Pa. Code Section 5.412a, enclosed for electronic filing please find the **Non-Proprietary versions of the Pre-Served Testimony and Exhibits** of the Bureau of Investigation & Enforcement's (I&E) witnesses in the above-captioned proceeding. ***The Proprietary versions have been submitted to the Secretary's Bureau Sharefile***. The following documents were admitted into the record pursuant to the Order Granting Joint Stipulation for Admission of Evidence entered on June 29, 2021:

John Zalesky:	I&E Statement No. 1 (PROPRIETARY and NON-PROPRIETARY) I&E Exhibit No. 1 (PROPRIETARY and NON-PROPRIETARY) I&E Statement No. 1-SR (PROPRIETARY and NON-PROPRIETARY) I&E Exhibit No. 1-SR (PROPRIETARY and NON-PROPRIETARY)
Anthony Spadaccio:	I&E Statement No. 2 I&E Exhibit No. 2 I&E Statement No. 2-R I&E Statement No. 2-SR
Ethan H. Cline:	I&E Statement No. 3 I&E Exhibit No. 3 I&E Statement No. 3-SR I&E Exhibit No. 3-SR

Also enclosed are I&E witness verifications that were previously submitted as an Appendix to the Joint Stipulation for Admission of Evidence.

Copies of this letter are being served on parties of record per the attached Certificate of Service. *Due to the temporary closing of the PUC's offices, I&E is only providing electronic service.* Should you have any questions, please do not hesitate to contact me.

Sincerely,

Scott B. Granger
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SBG/ac
Enclosures

cc: Honorable Steven K. Haas (*Cover Letter and Certificate of Service only – via email*)
Per Certificate of Service (*Cover Letter and Certificate of Service only – via email*)

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No.: R-2021-3023618
	:	
UGI Utilities, Inc. – Electric Division	:	

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Letter Regarding Pre-Served Testimony and Exhibits** on July 14, 2021, in the manner and upon the persons listed below:

Served via Electronic Mail Only

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I&E Statement No. 1
Witness: John Zalesky
NON-PROPRIETARY

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

UGI UTILITIES, INC. – ELECTRIC DIVISION

Docket No. R-2021-3023618

Direct Testimony

of

John Zalesky

Bureau of Investigation & Enforcement

Concerning:

OPERATING AND MAINTENANCE EXPENSES

TAXES

CASH WORKING CAPITAL

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INTRODUCTION

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is John Zalesky. I am a Fixed Utility Financial Analyst in the Technical Division of the Pennsylvania Public Utility Commission's (Commission or PUC) Bureau of Investigation and Enforcement (I&E). My business address is Commonwealth Keystone Building, 400 North Street, Harrisburg, PA 17120.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. My educational and professional background are set forth in the attached Appendix A.

Q. DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.

A. I&E is responsible for protecting the public interest in rate proceedings. I&E's analysis in this proceeding is based on its responsibility to represent the public interest. This responsibility requires balancing the interests of ratepayers, the regulated utility, and the regulated community as a whole.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to review the base rate filing of UGI Utilities, Inc. – Electric Division (UGI Electric or Company) and make recommended adjustments to the Company's proposed operating and maintenance (O&M) expense, tax, and cash working capital claims for the fully projected future test year (FPFTY) ending September 30, 2022.

Q. DOES YOUR TESTIMONY INCLUDE AN EXHIBIT?

A. Yes. I&E Exhibit No. 1 contains schedules that support my direct testimony.

Q. SUMMARIZE THE COMPANY'S OVERALL CLAIMED REVENUE REQUIREMENT.

A. The Company's base rate case filing was submitted on February 8, 2021, requesting an increase of $8,709,000 to claimed present rate revenues of $87,065,000 resulting in a total overall revenue requirement of $95,774,000.[1]

Q. PLEASE SUMMARIZE YOUR ADJUSTMENTS.

A. The following table summarizes my recommended adjustments:

	Company Claim	**I&E Recommended Allowance**	**I&E Adjustment**
O&M Expenses and Taxes:			
Rate Case Expense	$420,000	$279,667	($140,333)
Uncollectibles	$1,853,000	$1,683,667	($169,333)
COVID-19 Related Costs	$220,000	$0	($220,000)
Payroll Taxes – FICA	$459,000	$447,900	($11,100)
Payroll Taxes – SUTA	$25,000	$13,300	($11,700)
PA and Local Use Taxes	$80,000	$25,686	($54,314)
Allocated Stock Options and Restricted Stock Awards	$203,822	$0	($203,822)
Vegetation Management	$3,476,766	$2,019,835	($1,456,931)
Company-owned Service Transition Program	$458,000	$90,537	($367,463)
Miscellaneous General Expenses – Association Dues – EEI	$79,000	$52,400	($26,600)
Total O&M and Tax Expense Adjustments			**($2,661,596)**
Rate Base Adjustments:			
Cash Working Capital	$7,657,000	$7,470,000	($187,000)
Total Rate Base Adjustments			**($187,000)**

[1] UGI Electric Exhibit A - Fully Projected, Schedule A-1.

Q. WHAT TEST YEARS HAS THE COMPANY USED IN THIS PROCEEDING?

A. The Company used the twelve months ended September 30, 2020 as the historic test year (HTY), the twelve months ending September 30, 2021 as the future test year (FTY), and the twelve months ending September 30, 2022 as the FPFTY.

OVERALL I&E POSITION

Q. WHAT IS I&E'S TOTAL RECOMMENDED REVENUE REQUIREMENT?

A. I&E's total recommended revenue requirement for the Company is $90,219,000. This recommended revenue requirement represents an increase of $3,153,000 to the Company's present rate revenues of $87,066,000. This total recommended allowance incorporates my adjustments made in this testimony to O&M expenses, taxes, and cash working capital, and those recommended adjustments made in the testimonies of I&E witnesses Anthony Spadaccio[2] and Ethan Cline.[3]

[2] I&E Statement No. 2.
[3] I&E Statement No. 3.

A calculation of the I&E recommended revenue requirement is shown below:

UGI Electric		TABLE I			
R-2021-3023618		INCOME	SUMMARY		
$ in Thousands					
	9/30/22	INVESTIGATION & ENFORCEMENT			
	Proforma	[---------------------------------------]			
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	$	$	$	$	$
Operating Revenue	87,066	0	87,066	3,153	90,219
Deductions:					
O&M Expenses	69,694	-2,661	67,033	49	67,082
Depreciation	7,114	-233	6,881		6,881
Taxes, Other	5,929	0	5,929	183	6,112
Income Taxes:					
Current State	-310	293	-17	292	275
Current Federal	-461	553	92	552	644
Deferred Taxes	827	0	827		827
ITC	0	0	0		0
Total Deductions	82,793	-2,048	80,745	1,076	81,821
Income Available	4,273	2,048	6,321	2,077	8,398
Rate Base	131,831	-1,830	130,001	0	130,001
Rate of Return	3.24%		4.86%		6.46%

RATE CASE EXPENSE

Q. BRIEFLY DESCRIBE THE NATURE AND TYPES OF EXPENDITURES TYPICALLY ALLOWED AS A PART OF A REGULATED UTILITY'S OVERALL RATE CASE EXPENSE.

A. The nature and types of individual expenditures that comprise a utility's allowable claim for rate case expense are those directly incurred to compile, present, and defend a utility's request for a base rate increase before the Commission. The actual expenditures and estimated costs typically found in an allowable rate case expense claim include legal fees for outside counsel, fees to outside consultants, and the cost of printing, document assembly, and postage.

Q. HOW HAS THE COMMISSION TRADITIONALLY TREATED RATE CASE EXPENSE FOR RATEMAKING PURPOSES?

A. The Commission has historically stated that it considers prudently incurred rate case expense as an ongoing expense, occurring at irregular intervals, related to the rendering of utility service. The Commission has also cited the importance of considering the involved utility's history regarding the frequency of rate case filings as an essential element to determine the normalized level of rate case expense for ratemaking purposes.

Q. HOW IS THE FREQUENCY OF RATE CASE FILINGS DETERMINED?

A. The frequency is determined by calculating the average number of months between the utility's previous rate cases.

Q. WHAT IS THE COMPANY'S CLAIM FOR RATE CASE EXPENSE?

A. The Company's claim for rate case expense is $420,000.[4]

Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?

A. The Company estimated its total rate case expense amount to be $839,000 and has requested a normalization period of two years (24 months).[5] This produced a normalized rounded claim of $420,000 [($839,000 ÷ 24 months) x 12 months]. The Company stated that it will make regular rate case filings going forward due to capital

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4 UGI Electric Exhibit A - Fully Projected, Schedule D-10.
5 UGI Electric Exhibit A - Fully Projected, Schedule D-10.

investments in accordance with its Long-Term Infrastructure Improvement Plan (LTIIP).[6]

Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?

A. No.

Q. WHAT IS YOUR RECOMMENDATION FOR RATE CASE EXPENSE?

A. I recommend that the Company's rate case expense be normalized over a period of 36 months (three years) resulting in an annual expense of $279,667 [($839,000 ÷ 36 months) x 12 months], or a reduction of $140,333 ($420,000 - $279,667) to the Company's claim.

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. I disagree with the claimed 24-month normalization period, because it is not supported by the Company's historic filing frequency. The proposed normalization period fails to properly rely upon the historic data and is speculative in nature.

In contrast to the Company's claimed 24-month normalization period, I recommend a 36-month normalization period, which is reasonable and validated by the Company's recent base rate filing history. Based on its response to I&E-RE-10-D, the Company has an average historic base rate filing frequency of every 36 months

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[6] UGI Electric Statement No. 2, p. 16, lines 10-13.

when considering the two most recent cases filed with the Commission:[7]

Docket No.	Filing Date	Filing Interval - Months
R-2021-3023618	February 8, 2021	> 36 Months
R-2017-2640058	January 26, 2018	

The Company's recent filing frequency of 36 months is reasonable and excludes prior cases not representative of recent activity. Including the other two cases as listed in I&E Exhibit No. 1, Schedule 1 would have resulted in an historic filing frequency of 109 months, which would be excessive. Therefore, I recommend a 36-month normalization period which includes the two most recent rate case filings.

Q. HAVE OTHER UTILITIES BEEN GRANTED A NORMALIZATION PERIOD BASED ON SPECULATION OF FUTURE FILINGS, AND IF SO, WHAT WAS THE RESULT?

A. Yes. In 2012, the Commission granted PPL Electric Utilities Corporation (PPL) permission to normalize its rate case expense over a 24-month period based on PPL's representations regarding its expected timing of future base rate case filings.[8] That base rate case was filed on March 30, 2012; however, despite PPL's representations, PPL did not file its next rate case until March 31, 2015, which was 36 months after the 2012 rate case filing. It should be noted that I&E's recommended normalization period in the 2012 PPL proceeding was a 32-month interval based on PPL's historic

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7 I&E Exhibit No. 1, Schedule 1.

8 *PA. PUC v. PPL Electric Utilities Corporation*, Docket No. R-2012-2290597, pp. 47-48 (Order Entered December 28, 2012).

filing frequency.[9] The I&E recommendation in that instance produced a much more accurate result than relying on PPL's stated future intention to file a rate case.

Q. ARE THERE ANY COMMISSION DECISIONS THAT SUPPORT YOUR RECOMMENDATION FOR A RATE CASE FILING INTERVAL BASED ON HISTORIC FILING FREQUENCY?

A. Yes. In a base rate case filed by Emporium Water Company, the Commission adopted the I&E recommended historic filing frequency finding in favor of I&E's recommended five-year normalization period based on a historic average filing frequency that was rounded down from 64 months.[10] Additionally, in a more recent decision for the City of DuBois, the Commission agreed with I&E's recommendation to use a historic filing frequency finding in favor of I&E's recommended 64-month normalization period, which matched the actual historic filing frequency.[11]

Finally and most recently, in the Columbia Gas base rate proceeding, the Commission indicated that the normalization period should align with the historic data rather than the Company's intent to file its next rate case.[12]

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9 I&E Statement No. 2, pp. 13-14 at Docket No. R-2012-2290597.

10 *PA PUC v. Emporium Water Company*, Docket No. R-2014-2402324, p. 50 (Order Entered January 28, 2015).

11 *PA PUC v. City of DuBois - Bureau of Water*, Docket No. R-2016-2554150, pp. 65-66 (Order Entered March 28, 2017); *PA PUC v. City of DuBois - Bureau of Water*, Docket No. R-2016-2554150, p. 13 (Order Entered May 18, 2017).

12 *PA PUC v. Columbia Gas*, Docket No. R-2020-3018835, Opinion and Order, pp. 78-79 (Order Entered February 19, 2021).

<u>UNCOLLECTIBLE ACCOUNTS EXPENSE</u>

Q. WHAT IS UNCOLLECTIBLE ACCOUNTS EXPENSE?

A. Uncollectible accounts are specific receivables that are determined to be uncollectible, in whole or in part, either because the debtors do not pay or because the creditor finds it impracticable to enforce payment. Those accounts deemed uncollectible are charged against income as uncollectible accounts expense.

Q. HOW DO UTILITIES GENERALLY RECOGNIZE UNCOLLECTIBLE ACCOUNTS EXPENSE FOR RATEMAKING PURPOSES?

A. Generally, for ratemaking purposes, utilities compute uncollectible accounts expense on an annual prospective basis. While the uncollectible accounts expense is a prospective claim, the proper calculation begins with a historic analysis of actual net write-offs to gross revenues to develop a historic write-off ratio. Thus, net write-offs are gross write-offs less recoveries of amounts previously written off. This ratio is applied to projected revenues to determine the proper prospective allowance. Normally, the historic analysis is based on several years of data.

Q. WHAT IS THE COMPANY'S CLAIM FOR UNCOLLECTIBLE ACCOUNTS EXPENSE?

A. The Company's claim for uncollectible accounts expense is $1,853,000.[13]

[13] UGI Electric Exhibit A – Fully Projected, Schedule D-2.

Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?

A. The Company's claim is based on the historic write off ratio of 1.557%.[14] The Company started with an uncollectible accounts expense of $965,000 budgeted for the fiscal year ending September 30, 2022 and increased that amount by $888,000.[15] The $888,000 increase is composed of the following two adjustments: Adjustment #1 of $382,000 to account for the routine uncollectible rate of 1.557% applied to the pro forma present rate revenue of $86,503,000 less the 2022 Budget amount of $965,000, and Adjustment #2 of $507,000 consisting of a regulatory asset of $1,013,000 composed of COVID-19 excess uncollectibles normalized over two years.[16] This produced a present rate uncollectible accounts expense claim of $1,853,000 ($965,000 + $888,000).[17] Next, the Company multiplied the proposed rate increase of $8,709,000 by 1.557% to calculate the increase for uncollectible accounts expense of $136,000 for proposed rates. This produced the Company's claim at proposed rates of $1,989,000 ($1,853,000 + $136,000) for uncollectible accounts expense.[18]

Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?

A. No.

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14 UGI Electric Exhibit A – Fully Projected, Schedule D-11.
15 UGI Electric Exhibit A – Fully Projected, Schedule D-11.
16 UGI Electric Exhibit A – Fully Projected, Schedule D-11 and UGI Electric Statement No. 4, pp. 16-20.
17 UGI Electric Exhibit A – Fully Projected, Schedule D-2, line 16.
18 UGI Electric Exhibit A – Fully Projected, Schedule D-2, line 16.

Q. WHAT DO YOU RECOMMEND FOR UNCOLLECTIBLES?

A. I recommend an allowance of $1,683,667 or a reduction of $169,333 ($1,853,000 - $1,683,667) to the Company's claim.

Q. WHAT IS THE BASIS OF YOUR RECOMMENDATION?

A. My recommendation is based on a change to the Company's claimed two-year normalization of the COVID-19 related regulatory asset balance (Adjustment #2).[19]

Q. SUMMARIZE ADJUSTMENT #2 OF SCHEDULE D-11 CONCERNING THE REGULATORY ASSET.

A. The Company has recorded a regulatory asset balance of $1,013,000 to be normalized over a two-year period for a $507,000 claim. The $1,013,000 amount was recorded in accordance with the Commission's May 13, 2020 Secretarial Letter regarding *COVID-19 Cost Tracking and Creation of Regulatory Asset* at Docket No. M-2020-3019775 that allowed companies to create a regulatory asset for uncollectibles in excess of the normal, pre-pandemic level of uncollectibles. For UGI Electric, its uncollectible accounts expense embedded in current rates is $1,015,000, which permits it to establish a regulatory asset for uncollectibles in excess of that amount due to the pandemic impact.[20] The Company claimed a two-year normalization period because it expects to file another base rate case in two years.[21]

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[19] UGI Electric Exhibit A – Fully Projected, Schedule D-11. It should also be noted that elsewhere the Company described its methodology as amortization (see I&E Exhibit No. 1, Schedule 2 and UGI Electric Statement No. 2, p. 17, line 10).

[20] UGI Electric Statement No. 4, pp. 16-20.

[21] I&E Exhibit No. 1, Schedule 2.

Q. WHAT DO YOU RECOMMEND FOR THE COVID-19 RELATED REGULATORY ASSET?

A. I recommend that the regulatory asset be more appropriately amortized (as opposed to normalized for this COVID-19 related uncollectibles balance) over three years, which is in line with my recommended normalization period for rate case expense based on the Company's recent historic filing frequency. A three-year amortization produces an allowance for Adjustment #2 of $337,667 ($1,013,000 ÷ 3 years).

Q. PLEASE EXPLAIN IN MORE DETAIL WHY AMORTIZATION TREATMENT IS MORE APPROPRIATE FOR THE COVID-19 RELATED REGULATORY ASSET BALANCE.

A. The Commission granted utilities regulatory asset treatment of the COVID-19 related uncollectibles (which places the balance in a balance sheet account to claim and begin recovery in a future rate case filing) and in doing so, when a utility claims that regulatory asset for ratemaking purposes, it should be amortized. Amortization allows for full recovery of the regulatory asset balance no matter when a utility makes a subsequent base rate case filing. Amortization is appropriate for the extinguishing over time of a regulatory asset (balance sheet account).

Q. SUMMARIZE YOUR RECOMMENDED ALLOWANCE FOR UNCOLLECTIBLE EXPENSE?

A. I recommend an allowance of $1,683,667 or a decrease of $169,333 ($1,853,000 - $1,683,667) to uncollectible accounts expense based on my adjustment to the Company's COVID-19 related uncollectibles balance.

Q. HAS THE COMPANY CLAIMED RECOVERY OF OTHER COVID-19 RELATED COSTS BEYOND UNCOLLECTIBLES?

A. Yes. The Company has proposed recovery of other COVID-19 expenses unrelated to uncollectibles that I will address in the next section of my testimony.

COVID-19 RELATED COSTS

Q. WHAT IS INCLUDED IN COVID-19 RELATED COSTS?

A. The Company tracked what it claims to be extraordinary, nonrecurring incremental COVID-19 expenses unrelated to uncollectibles and proposed a two-year normalization period to recover these expenses. The Company proposed regulatory asset treatment for all such additional costs.[22] These additional costs include such items as increased personal protective equipment (PPE), vehicle rentals, and unrecovered late fees and other miscellaneous fees.[23] The Company also subtracted such items for savings related to COVID-19.

Q. WHAT IS THE COMPANY'S CLAIM FOR COVID-19 COSTS?

A. The Company has claimed $440,000 in net COVID-19 costs to be normalized over two years for a claim of $220,000.[24]

[22] UGI Electric Statement No. 4, pp. 21-22.
[23] UGI Electric Exhibit A – Fully Projected, Schedule D-12.
[24] UGI Electric Exhibit A – Fully Projected, Schedule D-12.

Q. WHAT IS THE BASIS OF THE COMPANY'S CLAIM?

A. The Company referenced the Commission's Emergency Order at Docket No. M-2020-3019244 that allowed utilities to track extraordinary, nonrecurring incremental COVID-19 expenses, to create regulatory assets for incremental uncollectible expenses above those embedded in base rates, and to claim deferred COVID-19 costs at the first available opportunity. The Company asserted that the Secretarial Letter laid the foundation for utilities to seek recovery of extraordinary, nonrecurring incremental costs related to COVID-19 for items other than uncollectibles due to its requirement that extraordinary, nonrecurring incremental expenses be tracked.[25]

Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?

A. No.

Q. WHAT DO YOU RECOMMEND FOR COVID-19 RELATED COSTS?

A. I recommend disallowance of the Company's $220,000 claim in its entirety.

Q. WHAT IS THE BASIS OF YOUR RECOMMENDATION?

A. The Commission allowed companies to track incremental COVID-19 related costs (beyond uncollectibles and associated increases to expenses) but has not issued any guidance on whether or how companies may recover these costs. Alternatively, the Commission stated that tracking these expenses were, "intended to provide the

[25] UGI Electric Statement No. 4, pp. 16-17.

Commission with information to understand the extent of the COVID-19 pandemic's impact on utilities' finances."[26] The Commission stated further, apart from the uncollectible expenses, "this Secretarial Letter does not grant authorization for utilities to defer any other potential COVID-19 related expenses."[27] Therefore, it is inappropriate for the Company to defer and recover these expenses as a part of this rate case or create a regulatory asset account for recovery of subsequent COVID-19 expenses.

Q. PLEASE CONTINUE.

A. Additionally, it is uncertain whether increases in costs related to PPE and vehicle rentals are reflective of ongoing increases to expenses since it is likely that the Company has had to build in associated costs for these items in the FTY and FPFTY. The pandemic is not over, and even when it ends, it is unlikely that mask usage and related supplies will be discontinued at any certain date in the future.

As for lost revenues due to late fees and other miscellaneous fees, I am not aware that the Commission has ever instructed regulated utilities to track such amounts, and it certainly has not approved establishing a regulatory asset for deferral of such lost revenues.

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[26] Docket No. M-2020-3019775 *COVID-19 Cost Tracking and Creation of Regulatory Asset*, p. 3.
[27] Docket No. M-2020-3019775 *COVID-19 Cost Tracking and Creation of Regulatory Asset*, p. 2.

Q. DO YOU HAVE ANY FINAL COMMENTS RELATED TO THE COMPANY'S CLAIM FOR DEFERRAL TREATMENT OF PRIOR PERIOD LOST REVENUES ASSOCIATED WITH LATE FEES AND OTHER MISCELLANEOUS FEES AND NET INCREASES TO EXPENSES RELATED TO COVID-19?

A. Yes. In the Pennsylvania-American Water Company (PAWC) petition filing at Docket No. P-2020-3022426, I&E witness Christine Wilson recommended that the Commission issue statewide direction on this topic for all regulated utilities rather than granting an individual company special handling of related costs.[28] I agree with the recommendation made by Ms. Wilson and similarly recommend that the Commission provide such direction on a statewide basis regarding whether historically incurred expenses are granted approval for future recovery. That being said, the majority of the Company's claim is related to lost revenues in the form of late fees and other miscellaneous fees, and I believe it is inappropriate for ratepayers to be burdened to fund such lost revenues. Regulated utilities should not be fully insulated from all costs associated with the pandemic, particularly when the total amount requested for deferral of $440,000[29] prior to normalization is less than 0.5% of the total claimed present rate revenues in this proceeding of $95,774,000.[30] Finally, it should be noted that UGI Electric never sought or received special permission to defer for accounting purposes any COVID-19 related costs.

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[28] I&E Statement No. 1-SR, p. 17 at Docket No. P-2020-3022426.
[29] UGI Electric Exhibit A – Fully Projected, Schedule D-12.
[30] UGI Electric Exhibit A – Fully Projected, Schedule A-1.

<u>PAYROLL TAXES – FICA</u>

Q. WHAT IS FICA?

A. Both the employees and the employers pay Federal Insurance Contributions Act (FICA) taxes at the same rate (7.65%). FICA tax is a type of payroll tax divided into two parts: social security (6.2% of wages) and Medicare tax (1.45% of wages). Together these components make up the tax rate of 7.65% for FICA taxes. In this rate filing, the Company is making a claim for the employer's share.

Q. WHAT IS THE COMPANY'S CLAIM FOR PAYROLL TAXES – FICA?

A. The Company's claim for payroll taxes - FICA is $459,000.[31]

Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?

A. The Company's claim was based on its 2022 fiscal year budget.

Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?

A. No.

Q. WHAT DO YOU RECOMMEND FOR PAYROLL TAXES - FICA?

A. I recommend an allowance of $447,900 or a reduction of $11,100 ($459,000 - $447,900) to the Company's claim.

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[31] UGI Electric Exhibit A – Fully Projected, Schedule D-32.

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. The Company discovered an error when it was asked for an explanation and breakdown for its claim. The supporting calculations indicate the need for a downward adjustment of $11,100 to the Company's claim.[32] The Company has indicated that the budget amount in the filing was based on an incorrect allocation, and I accept the Company's updated claim of $447,900 for FICA payroll taxes.

<u>PAYROLL TAXES – SUTA</u>

Q. WHAT IS SUTA?

A. State Unemployment Tax (SUTA) is a tax paid by employers and employees to fund their state's unemployment insurance. The Company's claim in this proceeding is for the employer's share.

Q. WHAT IS THE COMPANY'S CLAIM FOR PAYROLL TAXES – SUTA?

A. The Company's claim for payroll taxes - SUTA is $25,000.[33]

Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?

A. The Company's claim was based on its 2022 fiscal year budget.

Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?

A. No.

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32 I&E Exhibit No. 1, Schedule 3.
33 UGI Electric Exhibit A – Fully Projected, Schedule D-32.

Q. WHAT DO YOU RECOMMEND FOR PAYROLL TAXES - SUTA?

A. I recommend an allowance of $13,300 or a reduction of $11,700 ($25,000 - $13,300) to the Company's claim.

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. The Company discovered an error when it was asked for an explanation and breakdown for its claim. The supporting calculations indicate the need for a downward adjustment of $11,700 to the Company's claim.[34] The Company has indicated that the budget amount in the filing was based on an incorrect rate, and I accept the Company's updated claim of $13,300 for SUTA payroll taxes.

<u>PA AND LOCAL USE TAXES</u>

Q. WHAT ARE PA AND LOCAL USE TAXES?

A. The Company's Pennsylvania and local use tax claim includes real estate taxes imposed by local municipalities and school districts.

Q. WHAT IS THE COMPANY'S CLAIM FOR PA AND LOCAL USE TAXES?

A. The Company's claim for PA and local use taxes is $80,000.[35]

Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?

A. The Company's claim was based on **[BEGIN PROPRIETARY]**

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[34] I&E Exhibit No. 1, Schedule 4.

[35] UGI Electric Exhibit A – Fully Projected, Schedule D-31.

[END PROPRIETARY]

Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?

A. No.

Q. WHAT DO YOU RECOMMEND FOR PA AND LOCAL USE TAXES?

A. I recommend an allowance of $25,686 or a reduction of $54,314 ($80,000 - $25,686) to the Company's claim.

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. The Company provided local tax bills to support only **[BEGIN PROPRIETARY]** **[END PROPRIETARY]** of its claim as outlined in its response to I&E-RE-6-D and summarized by me.[37] Then, I applied the Company's Gross Plant Allocation Factor of **[BEGIN PROPRIETARY]** **[END PROPRIETARY]** to calculate my recommendation of **[BEGIN PROPRIETARY]** **[END PROPRIETARY]** In short, the Company's claim should reflect only costs that it can reasonably justify.

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36 I&E Exhibit No. 1, Schedule 5, p. 1 - PROPRIETARY.

37 I&E Exhibit No. 1, Schedule 5 - PROPRIETARY and I&E Exhibit No. 1, Schedule 6 - PROPRIETARY.

38 I&E Exhibit No. 1, Schedule 5, p. 2 - PROPRIETARY.

39 I&E Exhibit No. 1, Schedule 6 - PROPRIETARY.

ALLOCATED STOCK OPTIONS AND RESTRICTED STOCK AWARDS

Q. WHAT ARE ALLOCATED STOCK OPTIONS AND RESTRICTED STOCK AWARDS?

A. Allocated stock options are a type of compensation allocated from the parent company in the form of an option given by a company to certain employees to buy stock in the company at a discount or at a stated fixed price. Restricted stock awards are a type of compensation given to key employees in the form of shares of stock subject to restrictions on sale and risk of forfeiture until vested by continued employment.

Q. WHAT IS THE COMPANY'S CLAIM FOR ALLOCATED STOCK OPTIONS AND RESTRICTED STOCK AWARDS?

A. The Company's claim is calculated to be $203,822[40] which is composed of $81,000 for shared executive stock options and restricted stock awards[41] and $122,822 for allocated stock options and restricted stock awards calculated as follows: Stock Options and Restricted Stock Awards of $6,746,000[42] multiplied by the UGI Utilities Inc. Modified Wisconsin Formula percentage of 25.24%, UGI Utilities, Inc. – Electric Division Modified Wisconsin Formula percentage of 9.31%, and Distribution Allocation percentage of 77.48% ($6,746,000 x 25.24% x 9.31% x 77.48%).[43]

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[40] I&E Exhibit No. 1, Schedule 7, p. 1.
[41] I&E Exhibit No. 1, Schedule 8, p. 3.
[42] I&E Exhibit No. 1, Schedule 9, p. 2.
[43] I&E Exhibit No. 1, Schedule 9, p. 3.

Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?

A. No.

Q. WHAT DO YOU RECOMMEND?

A. I recommend disallowance of the Company's total claim of $203,822 for allocated stock options and restricted stock awards.

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. Stock options and stock awards are forms of incentive compensation where the value is based on the achievement of financial goals. Financial goals related to the appreciation of common stock are shareholder-oriented goals, not ratepayer-oriented goals. Higher Company earnings are directly linked to higher rates which increase the value of common stock. Therefore, shareholders should bear the cost of stock options and restricted stock awards, not ratepayers.

Q. ARE THERE ANY RECENT COMMISSION ORDERS THAT SUPPORT YOUR RECOMMENDATION?

A. Yes. In the recent Columbia Gas of Pennsylvania, Inc. (Columbia) Opinion and Order the Commission disallowed stock rewards expense.[44] It should also be noted that Columbia voluntarily withdrew its claim for the stock compensation portion of its incentive compensation program.[45]

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44 *Pa. PUC v. Columbia Gas*, Docket No. R-2020-3018835, Opinion and Order, pp. 73-75 (Order Entered February 19, 2021).

45 *Pa. PUC v. Columbia Gas*, Docket No. R-2020-3018835, Opinion and Order, p. 75 (Order Entered February 19, 2021).

VEGETATION MANAGEMENT

Q. WHAT IS VEGETATION MANAGEMENT?

A. Vegetation management is removal and pruning of trees, bushes, and other shrubbery to ensure system reliability.

Q. WHAT IS THE COMPANY'S CLAIM FOR VEGETATION MANAGEMENT?

A. The Company's claim for vegetation management is $3,476,766.[46]

Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?

A. The Company has reflected an increase of 85% between fiscal year 2020 and FTY 2021 due to increased funding to improve system reliability through additional vegetation management work.[47] The Company further increased the FTY 2021 amount by 1% to calculate its FPFTY 2021 amount.[48]

Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?

A. No.

Q. WHAT DO YOU RECOMMEND FOR VEGETATION MANAGEMENT?

A. I recommend an allowance of $2,019,835 for vegetation management or a reduction of $1,456,931 ($3,476,766 - $2,019,835) to the Company's claim.

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[46] I&E Exhibit No. 1, Schedule 10, pp. 2-3.
[47] I&E Exhibit No. 1, Schedule 10, p. 3.
[48] I&E Exhibit No. 1, Schedule 10, p. 3.

Q. WHAT IS THE BASIS OF YOUR RECOMMENDATION?

A. My recommendation is based on a three-year historic average of this expense. The 2018, 2019, and 2020 expense amounts are $2,011,036, $2,189,747, and $1,858,722, respectively.[49] These are significantly less than the FTY amount of $3,429,725 and the FPFTY claim of $3,476,766. Further, the Company's explanation to increase funding for vegetation management by 85% in the FTY is unsupported. Therefore, I recommend the three-year historic average as the basis for my recommendation and calculated as follows: ($2,011,036 + $2,189,747 + $1,858,722) ÷ 3 = $2,019,835.

Q. PLEASE CONTINUE.

A. The Company's claim is $1,618,044 more than the HTY actual amount ($3,476,766 - $1,858,722). This amount represents approximately 18.6% of the Company's total proposed rate increase which is substantial ($1,618,044 ÷ $8,709,000). It must also be noted that Company spent less in the HTY than either of the previous two years despite an increase between fiscal year 2018 and fiscal year 2019. The sizable increase in this expense claim should not be granted as it is unsupported.

COMPANY-OWNED SERVICE TRANSITION PROGRAM

Q. WHAT IS THE COMPANY-OWNED SERVICE TRANSITION PROGRAM?

A. In the previous rate case,[50] the Company stated that it owned and maintained nearly 5,000 facilities (mainly residential) including service entrance cables, meter sockets,

[49] I&E Exhibit No. 1, Schedule 10, pp. 2 and 3.
[50] *Pa. PUC v. UGI Utilities – Electric Division*, Docket No. R-2017-2640058.

panel boxes, main breakers and 240-volt breakers, of which some equipment is located inside customers' homes.[51] The Company proposed a 10-year plan to transition ownership of these facilities to homeowners.

Q. WHAT IS THE COMPANY'S CLAIM FOR THE COMPANY-OWNED SERVICE TRANSITION PROGRAM?

A. The Company's claim is $458,000.[52]

Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?

A. The Company projected 500 service transfers annually as outlined in the 2018 base rate case for both FTY 2021 and FPFTY 2022.[53]

Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?

A. No.

Q. WHAT DO YOU RECOMMEND?

A. I recommend an allowance of $90,537 or a reduction of $367,463 ($458,000 - $90,537 to the Company's claim for the Company-owned service transition program.

[51] UGI Electric Statement No. 3, pp. 14-15 at Docket No. R-2017-2640058.
[52] I&E Exhibit No. 1, Schedule 11, p. 2.
[53] I&E Exhibit No. 1, Schedule 11, p. 3.

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. My recommendation is based on the HTY 2020 actual cost of $90,537.[54] What the Company actually spent in the HTY is more reliable than what the Company expects to spend in the FPFTY. As a matter of background, the Company first made a claim for this program and was granted an annual amount of $454,418 in its last base rate case which is similar to the Company's claim of $458,000 in this proceeding.[55] However, the actual expenses incurred for this program are significantly less than the claimed amount. Specifically, in fiscal year 2019 the Company spent $16,304 and in fiscal year 2020 the Company spent $90,537.[56] It should be noted that I&E's recommended allowance of $140,000 in the last case[57] is more than what the Company has experienced in any year since implementation. Despite the increase between 2019 and 2020, it is unlikely that the Company will reach its full claim amount of $458,000 in FTY 2021 or FPFTY 2022. Therefore, relying on the most recent year's experienced amount of $90,537 is more reliable.

<u>MISCELLANEOUS GENERAL EXPENSES – ASSOCIATION DUES – EEI</u>

Q. WHAT IS THE COMPANY'S CLAIM FOR MISCELLANEOUS GENERAL EXPENSES – ASSOCIATION DUES - EEI?

A. The Company's claim for miscellaneous general expenses – association dues – EEI is $79,000.[58]

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[54] I&E Exhibit No. 1, Schedule 11, p. 2.
[55] *Pa. PUC v. UGI Utilities – Electric Division*, Docket No. R-2017-2640058, Opinion and Order, pp. 45-50 (Order Entered October 25, 2018).
[56] I&E Exhibit No. 1, Schedule 11, pp. 2-3.
[57] *Pa. PUC v. UGI Utilities – Electric Division*, Docket No. R-2017-2640058, Opinion and Order, pp. 46 and 48 (Order Entered October 25, 2018).
[58] I&E Exhibit No. 1, Schedule 12, p. 2.

Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?

A. No.

Q. WHAT DO YOU RECOMMEND FOR MISCELLANEOUS GENERAL EXPENSES – ASSOCIATION DUES - EEI?

A. I recommend an allowance of $52,400 or a reduction of $26,600 ($79,000 - $52,400) to the Company's claim.

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. The Company discovered an error when it was asked for a basis and supporting documentation for its claim. The supporting calculations indicate the need for a downward adjustment of $26,600 to the Company's claim.[59] The Company has indicated that the claim in the filing was overstated, and I accept the Company's updated claim of $52,400 for miscellaneous general expenses – association dues -EEI.

<u>CASH WORKING CAPITAL</u>

Q. WHAT IS A CASH WORKING CAPITAL (CWC) ALLOWANCE FOR RATEMAKING PURPOSES?

A. CWC includes the amount of funds necessary to operate a utility during the interim period between the rendition of service, including the payment of related expenses, and the receipt of revenue in payment for services rendered by the utility.

[59] I&E Exhibit No. 1, Schedule 13, p. 1.

Q. HOW DOES THE COMPANY CALCULATE ITS CWC CLAIM?

A. The Company calculates its CWC claim by using a lead/lag study. A lead/lag study measures the differences in time between: (1) the time services are rendered until payment of those services is received; and (2) the time between the point when a utility has incurred an expense and the actual payment of the expense. Stated a different way, the lead/lag study measures how many days exist on an average between the midpoint of the service period and the date the payment is made.

Q. DO YOU AGREE WITH THE COMPANY'S USE OF THE LEAD/LAG METHOD?

A. Yes. I agree with the Company's use of this method.

Q. WHAT IS THE COMPANY'S CLAIM FOR CWC?

A. The Company's claim for CWC is $7,657,000.[60]

Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?

A. No.

Q. WHAT DO YOU RECOMMEND?

A. I recommend an allowance of $7,470,000 or reduction of $187,000 ($7,657,000 - $7,470,000) to the Company's claim.

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[60] UGI Electric Exhibit A – Fully Projected, Schedule A-1.

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. My recommendation includes modification of the Company's claim based on my recommended adjustments to O&M expenses and taxes as discussed previously in this testimony and an adjustment due to a Company error.[61]

Q. HOW DO YOUR OTHER ADJUSTMENTS DISCUSSED ABOVE IMPACT YOUR RECOMMENDATION FOR CWC?

A. All O&M adjustments that are cash-based expense claims are included when determining the Company's overall CWC requirement. Therefore, CWC was adjusted to reflect my recommended adjustments to O&M expenses as discussed above and an adjustment to fix a Company error.[62] In order to reflect the I&E recommended adjustments and the corrected Company error, I modified the Company's electronic CWC files as shown on UGI Electric Exhibit A – Fully Projected, Schedule C-4, p. 2 for each recommended adjustment and p. 8 for the Company error.[63]

Q. SUMMARIZE WHERE EACH OF THE RECOMMENDED O&M EXPENSE ADJUSTMENTS ARE REFLECTED IN THE CWC COMPUTATION.

A. **<u>Pro Forma O&M Expense</u>:**

The following recommended adjustments made by me above are reflected in the Pro Forma O&M Expense as downward adjustments to line 15 of the Company's

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[61] I&E Exhibit No. 1, Schedule 14.
[62] I&E Exhibit No. 1, Schedule 14.
[63] I&E Exhibit No. 1, Schedule 15.

Schedule C-4, p. 2:[64]

Other Expenses	Reduction
Rate Case Expense	$140,333
COVID-19 related costs	$220,000
Payroll Taxes – FICA	$11,100
Payroll Taxes – SUTA	$11,700
PA and Local Use Tax	$54,314
Allocated Stock Options and Restricted Stock Awards	$203,822
Vegetation Management	$1,456,931
Company-Owned Service Transition Program	$367,463
Miscellaneous General Expenses – Association Dues – EEI	$26,600
Total	**$2,492,263**

Uncollectible Expense:

I recommended an adjustment to Uncollectible Expense of $169,333, which is reflected as a reduction to Uncollectible Expense on UGI Electric Schedule C-4, p. 2, line 16.[65]

Q. IS YOUR RECOMMENDED CWC ALLOWANCE A FINAL RECOMMENDATION?

A. No. All adjustments to the Company's claims for revenues, expenses, taxes, and rate base must be continually brought together in the Administrative Law Judge's Recommended Decision and again in the Commission's Final Order. This process, known as iteration, effectively prevents the determination of a precise calculation until such time as all adjustments have been made to the Company's claim.

64 I&E Exhibit No. 1, Schedule 15, p. 2.
65 I&E Exhibit No. 1, Schedule 15, p. 2.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

JOHN E. ZALESKY

PROFESSIONAL EXPERIENCE AND EDUCATION

EMPLOYMENT

Pennsylvania Public Utility Commission — **Harrisburg, PA**
Fixed Utility Financial Analyst — *December 2017-Present*

Pennsylvania Office of the Budget, Comptroller Operations — **Harrisburg, PA**
Executive Accounting Specialist — *2017*

Mount 2000 High School Retreat — **Emmitsburg, MD**
Finance Coordinator — *2016*

Pennsylvania Department of Revenue, Corporation Taxes — **Harrisburg, PA**
Taxing Officer — *2012-2014*

David K Mitchell Financial — **Nanticoke, PA**
Intern — *2011*

EDUCATION & TRAINING

National Association of Regulatory Utility Commissioners — **Clearwater Beach, FL**
46th Eastern NARUC Utility Rate School — *October 2018*

Mount St. Mary's University — **Emmitsburg, MD**
Master of Arts in Philosophical Studies — *Class of 2017*
Thesis: Whether Social Media are Beneficial for Human Friendship

Harrisburg Area Community College — **Harrisburg, PA**
Accounting — *Class of 2013*
Associate in Arts in Business Studies, Highest Honors

The Pennsylvania State University — **University Park, PA**
Smeal College of Business, Schreyer Honors College — *Class of 2012*
Bachelor of Science in Finance, With Highest Distinction
Minors in Spanish, International Studies, and International Business
Thesis: Present Value Analysis of Pennsylvania Tuition Subsidies

EXPERIENCE

Submitted testimony or provided assistance in the following proceedings:

- Docket No. R-2020-3022134 – Pike County Light and Power Company (Gas)*
- Docket No. R-2020-3022135 – Pike County Light and Power Company (Electric)*
- Docket No. P-2020-3021191 – Peoples Natural Gas Tax Repair Election*
- Docket No. R-2020-3020919 – Audubon Water Company*
- Docket No. R-2020-3018835 – Columbia Gas of Pennsylvania, Inc.*
- Docket No. P-2020-3019290 – PECO Default Service Plan
- Docket No. R-2019-3015162 – UGI Utilities, Inc. – Gas Division*
- Docket No. A-2019-3012241 – Veolia Acquisition
- Docket No. R-2019-3010958 – Twin Lakes Utilities, Inc.*
- Docket No. R-2019-3009559 – Eaton Sewer and Water – Wastewater
- Docket No. R-2019-3009567 – Eaton Sewer and Water – Water
- Docket No. R-2019-3009624 – PECO Energy 1307(f)
- Docket No. R-2019-3006904 – Newtown Artesian Water Company*
- Docket No. A-2018-3006061, A-2018-3006062, and A-2018-3006063 – Aqua-Peoples Acquisition*
- Docket No. R-2018-3003558 – Aqua Pennsylvania, Inc.
- Docket No. R-2018-3003561 – Aqua Pennsylvania Wastewater, Inc.
- Docket No. R-2018-3001306 – Hidden Valley Utility Services – Water Division*
- Docket No. R-2018-3001307 – Hidden Valley Utility Services – Wastewater Division*
- Docket No. R-2018-3000164 – PECO Energy – Electric*
- Docket No. R-2018-3001568 – PECO Energy – Gas (1307(f))
- Docket No. R-2017-2640058 – UGI Utilities, Inc. – Electric Division

*Testimony Submitted

I&E Exhibit No. 1
Witness: John Zalesky
NON-PROPRIETARY

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

UGI UTILITIES, INC. – ELECTRIC DIVISION

Docket No. R-2021-3023618

Exhibit to Accompany

the

Direct Testimony

of

John Zalesky

Bureau of Investigation & Enforcement

Concerning:

OPERATING AND MAINTENANCE EXPENSES

TAXES

CASH WORKING CAPITAL

I&E-RE-10-D

Request:

Reference UGI Electric Book V, Exhibit A - Fully Projected, Schedule D 10 concerning rate case expense, provide the following details for the last three base rate cases filed with the Commission:

A. The docket number, date of filing, and method of resolution (e.g., settlement or litigation).

B. Requested rate case expense and actual rate case expense incurred.

Response:

Please see Attachment I&E-RE-10-D.

Prepared by or under the supervision of: Stephen F. Anzaldo

UGI Utilities, Inc. - Electric Division
Rate Case Expense

Company	Docket Number	Date of Filing	Resolution	Rate Case Expense Requested	Rate Case Expense Actual
UGI Utilities, Inc. - Electric Division	R-2017-2640058	January 26, 2018	Fully Litigated	$ 676,000	$ 868,967
UGI Utilities, Inc. - Electric Division	R-00953534	January 26, 1996	Settlement	$ 360,000	N/A
UGI Utilities, Inc. - Electric Division	R-00932862	November 1, 1993	Fully Litigated	N/A	$ 372,000

Note: 1996 and 1993 amounts were provided in the response to SDR-I-B-24 at Docket No. R-00953534.

OCA-III-26

Request:

With reference to Book V, Exhibit A (FPFTY), Schedule D-11,

a. Please identify any carrying charges included in the regulatory asset balance.

b. Please explain the rationale for the 2-year normalization period.

Response:

a. There are no carrying charges included in the regulatory asset balance.

b. The Company has chosen a two year amortization period because it anticipates filing another 1308 general rate case in two years.

Prepared by or under the supervision of: Vivian K. Ressler

I&E-RE-15-D

Request:

Reference UGI Electric Book V, Exhibit A - Fully Projected, Schedule D 32 concerning FICA Expense:

A. Provide the breakdown for FICA Expense, expensed and capitalized amounts as claimed for the FPFTY.

B. Explain why it is appropriate to charge ratepayers 7.84% for FICA expense when the employer's share is only 7.65% (6.2% for social security and 1.45% for Medicare).

Response:

A. The FICA breakdown between expense and capital as claimed in the FPFTY is $459,000 and $216,000 respectively, and is net of the allocation to transmission operations.

B. FICA expense is calculated based on total employee salary and then further allocated between expense and capital based on wage allocations and is net of the allocation to transmission operations. Due to these allocations some variances can occur. The difference of .19% represents an expense impact of $11,100 which will be adjusted at an appropriate time later in this proceeding.

Prepared by or under the supervision of: Stephen F. Anzaldo

I&E-RE-17-D

Request:

Reference UGI Electric Book V, Exhibit A - Fully Projected, Schedule D 32 concerning SUTA Expense:

A. Provide the breakdown for SUTA Expense, expensed and capitalized amounts as claimed for the FPFTY.

B. Explain why SUTA expense went from 0.22% of wages in the HTY, to 0.45% of wages in the FTY, to 0.42% of wages in the FPFTY.

C. Provide supporting documentation for the 0.42% rate claimed in the FPFTY.

Response:

A. The SUTA breakdown between expense and capital as claimed for the FPFTY is $25,000 and $11,700 respectively and is net of the allocation to transmission operations.

B. & C. The FPFTY SUTA expense was calculated at a higher rate in error. The difference between the 0.22% in the HTY and 0.42% in the FPFTY represents overstated expense of $11,700 which will be adjusted at an appropriate time later in this proceeding.

Prepared by or under the supervision of: Stephen F. Anzaldo

I&E Exhibit No. 1
Schedule 7
Page 1 of 1

UGI Electric

R-2021-3023618

Stock Options and Restricted Stock Awards (SO and RSA) I&E Prepared Schedule

Modified Attachment I&E-RE-21-D(A), p. 2; I&E Exhibit No. 1, Sch. 9, p. 2	UGI Corporation Allocable Expense	UGI Utilities Inc. MWF%	UGI Utilities, Inc. Indirect Allocation (1*2)	UGI Utilities, Inc. HR System Allocated Costs (a)	Shared Executive Costs (b)	UGI Utiles, Inc. direct Assignment	UGI Utilities, Inc. Total UGI Allocation (3+4+5+6)	UGI Utilities, Inc. - Electric Division MWF%	UGI Utilities, Inc. - Electric Division Total UGI Corporation Allocation (7*8)	Distribution Allocation %	UGI Utilities, Inc. - Electric Distribution Portion of Total UGI Corporation Allocation
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	
Stock Options and Restricted Stock Awards (SO and RSA) portion of Corporate Allocation -2022	$ 6,746,000	25.24%	$ 1,702,690				$ 1,702,690	9.31%	$ 158,520	77.48%	$ 122,822

Source:
Attachment I&E-RE-21-D(A), p. 1
I&E Exhibit No. 1, Sch. 9, p. 2

$ 122,822	Allocated SO and RSA
$ 81,000	Shared Executive SO and RSA (Source: Attachment I&E-RE-28-D (A); I&E Exhibit No. 1, Sch. 8, p. 3)
$ 203,822	Total SO and RSA

I&E-RE-28-D

Request:

Reference UGI Book I, Attachment II-D-8.1 concerning charges imposed by affiliates – UGI corporation allocation:

A. Provide a breakdown by category for allocated expenses as follows: (1) $1,832,000 for 2021; and (2) $1,894,000 for 2022.

B. Provide reference to the line number(s)/account title(s) where the corporate allocations claim of $1,894,000 is reflected on Book V, Schedule B-4, and provide reference to the applicable Affiliated Interest Agreement for each line item listed in response to Part A above.

C. Provide a similar breakdown to the response to Part A by year for the twelve months ended September 30, 2018; September 30, 2019; and September 30, 2020.

D. Identify the capitalized portion for each charge as identified in Parts A and C above, and the expensed amount included for ratemaking.

E. Provide a detailed explanation for the 3.4% increase in corporate allocations between 2021 and 2022.

Response:

A. The majority of these allocated expenses are detailed at Attachment I&E-RE-21-D (A). In addition to the amounts included at Attachment I&E-RE-21-D (A) (included within FERC 928), for 2021 and 2022, there are certain costs associated with executives shared by UGI Utilities and its affiliate UGI Energy Services, Inc. These Shared Executives are employed by UGI Corporation. The portion of these Shared Executives' compensation and benefits attributable to UGI Electric, Inc. is included within UGI Corporation Allocation amount at Attachment II-D-8.1. Please see details at Attachment I&E-RE-28-D (A).

B. Please see Attachment I&E-RE-28-D (A) for a reference to Schedule B-4 by line item.

Please note that the amounts on Attachment II-D-8.1 include expenses for all of UGI Utilities, Inc. – Electric Division, while the amounts presented on Schedule

I&E-RE-28-D (Continued)

B-4 include only the costs associated with Electric Distribution operations. The portion of the $1,894,000 included in Schedule B-4 is $1,467,000.

All services within the UGI Corporation Allocation are provided under the May 1992 Affiliate Interest Agreement with UGI Corporation (Docket #G-00920296) included at Book I, Attachment II-D-8.2.

C. Please see Attachment I&E-RE-21-D (A).

D. All of the amounts included in Parts (A) and (C) above are expensed amounts for ratemaking.

E. The 3.4% increase in the corporate allocation between 2021 and 2022 is due to typical payroll merit increases and benefit cost increases.

Prepared by or under the supervision of: Vivian K. Ressler

UGI Utilities, Inc. - Electric Division
Breakdown of Allocation from UGI Corporation
For the Fiscal Years Ended September 30, 2021 through 2022
$s in Thousands

	2021	2022		Schedule B-4 Reference
UGI Corporation Allocation - Outside Services	$ 1,646	$ 1,703	(a)	Line 102 - Outside Services Employed
Shared Executive Payroll	46	49		Line 99 - Administrative and General Salaries
Shared Executive Benefits	21	22		Line 105 - Employee Pensions and Benefits
Shared Executive Incentive Compensation	36	37		Line 99 - Administrative and General Salaries
Shared Executive Stock Options and Restricted Stock Awards	80	81		Line 99 - Administrative and General Salaries
Shared Executive Payroll Taxes	3	3	(b)	N/A
	$ 1,832	$ 1,894		

(a) See further breakdown of the UGI Corporation Allocation - Outside Services at Attachment I&E-RE-21-D (A).
(b) Payroll taxes are included within Taxes other than income taxes, which is not part of Schedule B-4.

I&E-RE-21-D

Request:

Reference UGI Electric Book I, Attachment II-D-7(b) concerning outside services – corporate allocation:

A. Provide a detailed breakdown for the following by expense type: (1) 2020 - $1,677,000; (2) 2021 - $1,646,000; and (3) 2022 - $1,703,000.

B. Provide reference to the line number(s)/account title(s) where the corporate allocation expense of $1,703,000 is reflected on Book V, Schedule B-4.

C. Provide similar yearly breakdowns to details provided in response to Part A above for 2018 and 2019.

Response:

A. Please see Attachment I&E-RE-21-D (A). The $1,353,000 amount for 2020 does not agree to the amount of $1,677,000 in Attachment II-D-7(b) due to an error in the original filing which has been corrected in Attachment I&E-RE-21-D (A). This error does not impact the Company's revenue claim.

B. The $1,703,000 is included in line 102 - Outside Services Employed of Schedule B-4. Please note that the amounts in UGI Electric Book I Attachment II-D-7(b) include expenses for all of UGI Utilities, Inc. – Electric Division, while the amounts presented in UGI Electric Book V Schedule B-4 include only the costs associated with Electric Distribution operations. The portion of the $1,703,000 included in Schedule B-4 is $1,320,000.

C. Please see Attachment I&E-RE-21-D (A).

Prepared by or under the supervision of: Vivian K. Ressler

UGI Utilities, Inc. - Electric Division
Breakdown of Corporate Allocation
For the Fiscal Years Ended September 30, 2018 through 2022
$s in Thousands

	2018	2019	2020	2021	2022
UGI CORPORATION INDIRECT ALLOCABLE EXPENSE					
Indirect Payroll and Benefits Costs					
Payroll	$ 15,817	$ 16,053	$ 17,775	$ 18,225	$ 19,648
Benefits	5,321	3,876	4,370	6,790	6,986
Incentive Compensation	3,459	3,815	3,071	5,021	5,270
Stock Options and Restricted Stock Awards	7,997	6,745	7,041	6,981	6,746
Payroll Taxes	1,178	1,343	1,250	1,325	1,389
Total Indirect Payroll and Benefits Costs	33,771	31,831	33,507	38,343	40,040
Indirect Non Payroll Costs					
Directors' Fees and Expenses	987	1,270	1,143	1,148	1,170
Directors' Equity Compensation	3,253	741	(716)	1,676	1,725
IT Support & Maintenance	1,670	2,492	3,879	4,028	4,178
Other Professional Expense	6,972	5,306	8,235	7,005	7,255
Other Corporate Operating Expenses	3,758	4,501	5,059	6,793	6,906
Total Indirect Non-Payroll Costs	16,641	14,310	17,600	20,649	21,235
TOTAL UGI CORPORATION INDIRECT ALLOCABLE EXPENSE	$ 50,412	$ 46,141	$ 51,107	$ 58,992	$ 61,275

Note: All costs shown on this page are total costs at the UGI Corporation level. After allocation, the portion of these costs attributed to UGI Electric Distribution Operations is approximately 1.7% - 2.0%. See further detail of the calculations at Page 2.

UGI Utilities, Inc. - Electric Division
Calculation of Corporate Allocation
For the Fiscal Years Ended September 30, 2018 through 2022
$s in Thousands

	UGI Corporation Allocable Expense (1)	UGI Utilities, Inc. MWF% (2)	UGI Utilities, Inc. Indirect Allocation (1*2) (3)	UGI Utilities, Inc. HR System Allocated Costs (a) (4)	Shared Executive Costs (b) (5)	UGI Utilities, Inc. Direct Assignment (6)	UGI Utilities, Inc. Total UGI Allocation (3+4+5+6) (7)	UGI Utilities, Inc. - Electric Division MWF% (8)	UGI Utilities, Inc. - Electric Division Total UGI Corporation Allocation (7 * 8) (9)	Distribution Allocation % (10)	UGI Utilities, Inc. - Electric Distribution Portion of Total UGI Corporation Allocation (9 * 10)
Corporate Allocation - 2018	$ 50,412	25.85%	$ 13,031			$ 1,203	$ 14,234	9.88%	$ 1,404	77.48%	$ 1,088
Corporate Allocation - 2019	$ 46,141	27.09%	$ 12,500			$ 1,236	$ 13,736	9.35%	$ 1,283	77.48%	$ 994
Corporate Allocation - 2020	$ 51,107	23.76%	$ 12,143	$ 308	$ 723	$ 1,356	$ 14,530	9.31%	$ 1,357	77.48%	$ 1,051
Corporate Allocation - 2021	$ 58,992	24.89%	$ 14,684	$ 1,546		$ 1,476	$ 17,706	9.31%	$ 1,646	77.48%	$ 1,276
Corporate Allocation - 2022	$ 61,275	25.24%	$ 15,468	$ 1,338		$ 1,520	$ 18,326	9.31%	$ 1,703	77.48%	$ 1,320

(a) Costs for the HR system are allocated at different rates, based on UGI Utilities' usage of the system compared to useage by other UGI companies.

(b) Beginning in March 2020, certain executives formerly employed by UGI Utilities or its affiliate UGI Energy Services transferred to UGI Corporation and their responsibilities were adjusted to include both companies. UGI Utilities' costs associated with these Shared Executives were included within the Corporate Allocation. Within the budget for 2021 and 2022, the cost of these Shared Executives was included in other FERC accounts (see details at Attachment I&E-RE-28-D (A)).

I&E-RE-37-D

Request:

Reference UGI Electric Statement No. 3, p. 8 and R-2017-2640058 Opinion and Order paragraph XII.12.a concerning the vegetation management program, provide the following:

A. Yearly expense breakdowns for associated expenses for the twelve months ended September 30, 2018, 2019, 2020, the FTY, and the FPFTY claim.

B. State the specific line number(s)/account title(s) where the FPFTY claim is reflected on UGI Electric Book V, Exhibit A-Fully Projected, Schedule B-4.

C. Explanation for any variations greater than 10% between any consecutive years from part (A) of this question.

Response:

A. Please see Attachment I&E-RE-37-D-1.

B. The FPFTY claim associated with vegetation maintenance is reflected in UGI Electric Book V, Exhibit A - Fully Projected, Schedule B-4, Line No. 73 – Maintenance of Overhead Lines, Account 593.0.

C. Please see Attachment I&E-RE-37-D-2.

Prepared by or under the supervision of: Eric W. Sorber

UGI Utilities Inc. - Electric Division
Line Clearance Annual Expense Breakdown
12 Months Ending September 30

DISTRIBUTION VEGETATION MAINTENANCE		FY2018	FY2019 (1)	FY2020 (2)	FTY(2021)	FPFTY(2022)
SALARIES & BENEFITS	LINE CLEARANCE - ELECTRIC	$72,471	$90,843	$86,177	$91,644	$94,404
TRANSPORTATION	LINE CLEARANCE - ELECTRIC	$5,213	$6,712	$6,759	$7,234	$6,306
NON-PAYROLL/OTHER	LINE CLEARANCE - ELECTRIC	$1,763,198	$1,865,271	$1,635,667	$3,330,847	$3,376,056
NON-PAYROLL STORM COSTS	LINE CLEARANCE - ELECTRIC	$170,154	$226,921	$130,119	N/A	N/A
TOTAL ALL COST ELEMENTS	LINE CLEARANCE - ELECTRIC	$2,011,036	$2,189,747	$1,858,722	$3,429,725	$3,476,766
TOTAL ALL COST ELEMENTS EXCLUDING STORMS	LINE CLEARANCE - ELECTRIC	$1,840,882	$1,962,826	$1,728,603	N/A	N/A

Note (1) - The FY2019 data originally provided in response to R-2017-2640058 Opinion and Order paragraph 12 included $230,039 in Transmission vegetation maintenance expense.

Note (2) - The FY2020 data originally provided in response to R-2017-2640058 Opinion and Order paragraph 12 included $10,311 in Transmission vegetation maintenance expense.

UGI Utilities Inc. - Electric Division
Annual Line Clearance Expense Variation Comments
12 Months Ending September 30

FY2018	FY2019	Variance	Comment
$2,011,036	$2,189,747	9%	N/A

FY2019	FY2020	Variance	Comment
$2,189,747	$1,858,722	-15%	Variance reflects a greater focus on transmission vegetation maintenance reliability issues in FY2020 and more storm restoration work in FY2019.

FY2020	FTY(2021)	Variance	Comment
$1,858,722	$3,429,725	85%	Reflects increased funding to improve system reliability through additional vegetation management work (trimming, herbicide application and removals). Additional work planned to address increased frequency in severe weather events. Planned FY2021 work is currently going through a line-mile competitive bid process.

FTY(2021)	FPFTY(2022)	Variance	Comment
$3,429,725	$3,476,766	1%	N/A

I&E-RE-50-D

Request:

Reference Docket No. R-2017-2640058 Exhibit A – Fully Projected, Sch. D-15, Docket No. R-2017-2640058 Opinion and Order paragraph XII.12.b, and the UGI Electric's corresponding responses concerning the customer-owned service transition program:

A. Provide yearly expense breakdowns for associated expenses for the twelve months ended September 30, 2018, 2019, 2020, the FTY, and the FPFTY claim.

B. Provide the specific line number(s)/account title(s) where the FPFTY claim is reflected on R-2021-3023618 UGI Electric Book V, Exhibit A - Fully Projected, Schedule B-4.;

C. Explain variations greater than 10% between any consecutive years from Part A of this question.

D. Explain the significant difference between UGI Electric's claim in the rate case filing at R-2017-2640058 of $454,000 for the FPFTY and the actual amount of $16,304 as reported in R-2017-2640058 Opinion and Order Paragraph #12 – Annual Report for the fiscal year ended September 30, 2019.

Response:

A. Please see Attachment I&E-RE-50-D-1.

B. The Company Owned Service Transition Program claim is included in UGI Electric Book V, Exhibit A - Fully Projected, Schedule B-4, Line No. 64 – Customer Installation Expenses, Account 587.0.

C. Please see Attachment I&E-RE-50-D-2.

D. Please see Attachment I&E-RE-50-D-3, paragraph (b) Company Owned Service Program.

Prepared by or under the supervision of: Eric W. Sorber

UGI Utilities Inc. - Electric Division
Company Owned Service Transition Program Expense
12 Months Ending September 30

	FY2018	FY2019	FY2020	FTY(2021)	FPFTY(2022)
Annual Expense	Note (1)	$16,304	$90,537	$458,000	$458,000

Note (1) - UGI Electric commenced its Company Owned Service Transition Program in October 2018.

UGI Utilities Inc. - Electric Division
Company Owned Service Transition Program Expense
12 Months Ending September 30

FY2018	FY2019	Variation	Explanation
$0	$16,304	N/A	Increase reflects approval of the program in early FY2019 and initial service transfers throughout the year

FY2019	FY2020	Variation	Explanation
$16,304	$90,537	455%	Increase reflects 52 additional services being transferred in FY2020 versus FY2019

FY2020	FY2021	Variation	Explanation
$90,537	$458,000	406%	Increase reflects the 500 service transfers projected annually in the 2018 UGI Electric Base Rate Case

FY2021	FY2022	Variation	Explanation
$458,000	$458,000	0%	N/A

Energy to do more®

UGI Utilities, Inc.
1 UGI Drive
Denver, PA 1717

Eric W. Sorber
Vice President & General Manager

November 27, 2019

VIA ELECTRONIC FILING

Ms. Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Re: UGI Utilities, Inc. – Electric Division
Docket No. R-2017-2640058
Opinion and Order Paragraph #12 – Annual Report

Dear Secretary Chiavetta:

In accordance with Paragraph #12 of the Opinion and Order entered in *UGI Utilities, Inc. – Electric Division v. Pa. PUC*, at Docket No. R-2017-2640058 ("2018 Rate Case") on October 25, 2018, UGI Utilities, Inc. – Electric Division ("UGI Electric" or "the Company") is providing the following responses to the specific requirements of Paragraph #12. Paragraph #12 of the Commission's Opinion and Order identifies the following reporting requirements:

> 12. *That UGI Utilities, Inc.- Electric Division is directed to file annual reports at this Docket with the Secretary's Bureau and with the Commission's Fixed Utility Financial Analyst Supervisor of the Bureau of Investigation and Enforcement by December 1 following the end of each fiscal year for the next five years, or until the implementation of new base rates in a subsequent rate case within this same time frame, for the following:*
>
> a. *The annual vegetation management expenses and the status of hiring an additional crew pertaining to the increased costs as a consequence of the Emerald Ash Borer;*
>
> b. *The actual Customer Owned Service program expenses and the number of facilities transitioned to customer ownership; and*
>
> c. *The actual annual expenses associated with the hiring of three new employees as well as any reductions in expenses if any positions are eliminated.*

In accordance with Paragraph #12 of the Opinion and Order, UGI Electric is providing the following responses, as detailed below, for the fiscal year ended September 30, 2019.

(a) Vegetation Management Expenses. The total vegetation management expense for the fiscal year ended September 30, 2019 was $2,192,864. Of this total expense amount, $192,370 related to the additional crew hired to address increased work associated with danger tree removal as a consequence of the Emerald Ash Borer. As was noted in the Company's testimony, this crew was hired during fiscal year 2018. Thus the stated amount reflects a full year of associated expense.

(b) Company Owned Service Program. UGI Electric commenced its Company Owned Service Program subsequent to its receipt of the Opinion and Order on October 25, 2018. As a result, fiscal year 2019 included a focus on establishing the required internal administrative and outside services support for the Company Owned Service program. Key elements included the development of customer communications (in conjunction with the Commission's Bureau of Consumer Services and the Office of Consumer Advocate); hiring of required administrative staff; identification and selection of outside contractor resources; and, development of communication plans. While prerequisite ramp-up activities throughout fiscal year 2019 required significant time, UGI Electric mailed 892 initial letters to customers having company owned services during the year, and received 116 responses (representing an initial response rate of 13%). Each of the 116 respondents have been scheduled for work and, as of September 30, 2019, ownership for twenty-three units has been transferred. Invoiced costs for the Company Owned Service program as of September 30, 2019 were $16,304, exclusive of administrative costs incurred by UGI Electric. By the end of fiscal year 2020, the Company plans to send out initial letters to all remaining customers subject to this program (approximately 4,100 letters). Targeted completions for fiscal year 2020 forward are projected to be 500 services per year, as forecasted in the 2018 Rate Case.

(c) Hiring Three New Employees. The General Manager position was filled as a Vice President & General Manager role effective October 1, 2019, as a result of an internal promotion. The Business Support Engineer position was filled effective August 19, 2019, as a result of an internal promotion, and the New Business Engineer position was filled effective March 18, 2019. The actual costs of these positions for fiscal year 2019 were $19,663, which also reflects vacancy periods for these positions during the fiscal year. On a going forward basis the annualized cost associated with these three positions will be $336,404 for fiscal year 2020. No positions have been eliminated, and the positions made vacant by internal promotion have already been or will be backfilled. Therefore there is no reduction in expenses to report.

Should you have any questions related to these documents, please contact Stephen Anzaldo, Director-Rates & Regulatory Planning, via e-mail at sanzaldo@ugi.com or via phone at (610) 796-3528.

Sincerely,

Eric W Sorber

Eric W. Sorber
Vice President & General Manager
UGI Utilities, Inc. – Electric Division

cc: Fixed Utility Financial Analyst Supervisor - Bureau of Investigation and Enforcement

I&E-RE-19-D

Request:

Reference UGI Electric Book I, Attachment II-D-7(a) concerning miscellaneous general expenses – association dues:

A. Provide a detailed breakdown for the following by expense type: (1) 2020 - $73,000; (2) 2021 - $94,000; and (3) 2022 - $96,000.

B. Provide reference to the line number(s)/account title(s) where association dues of $96,000 is reflected on Book V, Schedule B-4.

C. Provide similar yearly breakdowns to details provided in response to Part A above for 2018 and 2019.

D. Provide a detailed explanation for the 29% increase in association dues between 2020 and 2021.

Response:

A. Please see Attachment I&E-RE-19-D (A) for the breakdown of association dues for 2018 through 2022.

B. The $96,000 is included in line number 110 - Miscellaneous General Expense on schedule B-4. Please note that the amounts on Attachment II-D-7(a) include expenses for all of UGI Utilities, Inc - Electric Division, while the amounts presented on Schedule B-4 include only the costs associated with Electric Distribution operations. The portion of the $96,000 included in Schedule B-4 is $74,000.

C. Please see Attachment I&E-RE-19-D (A).

D. The 29% increase in association dues between 2020 and 2021 is primarily driven by an increase in EEI dues.

Prepared by or under the supervision of: Vivian K. Ressler

UGI UTILITIES, INC. - ELECTRIC DIVISION
SCHEDULE OF ACCOUNT 930.2 - MISCELLANEOUS GENERAL EXPENSES - ASSOCIATION DUES
FOR THE YEARS ENDING SEPTEMBER 30, 2018 THROUGH 2022

Expenditure Type *(in Thousands)*	**2018**	**2019**	**2020**	**2021**	**2022**
EEI	$ 56	$ 56	$ 61	$ 78	$ 79
Energy Association of PA	$ 7	$ 7	$ 8	$ 8	$ 8
Other	$ 12	$ (0)	$ 4	$ 8	$ 9
Association Dues	$ 75	$ 63	$ 73	$ 94	$ 96

I&E-RE-74

Request:

Reference UGI Electric's response to I&E-RE-19-D concerning miscellaneous general expenses – association dues. Provide a basis and documentation (i.e., invoices, etc.) to support the EEI dues of $56,000 for 2018, $56,000 for 2019, $61,000 for 2020, $78,000 for 2021, and $79,000 for 2022.

Response:

Please see Attachment I&E-RE-74 for copies of EEI invoices for 2018-2021. The Company's calculation for Fiscal 2021 and Fiscal 2022 for EEI dues was overstated, resulting in an overstatement of the Company's claim (for Fiscal 2022) of $26,600. This error will be corrected at the appropriate time.

Prepared by or under the supervision of: Vivian K. Ressler

Invoice for Membership Dues

Edison Electric INSTITUTE

MR. ROBERT F. BEARD
PRESIDENT AND CEO
UGI CORPORATION
2525 N 12TH ST, SUITE 360
READING, PA 19612

Date	Invoice Number
12/13/2017	DUES201857

Payment due on or before 1/31/2018

Description	Total
2018 EEI Membership Dues for:	
Regular Activities of Edison Electric Institute [1]	$50,000
Industry Issues [2]	5,000
Restoration, Operations, and Crisis Management Program [3]	1,000
2018 Contribution to The Edison Foundation, which funds IEI [4]	~~5,000~~
[redacted]	
Total	56,000 ~~**$61,000**~~

1 The portion of 2018 membership dues relating to influencing legislation, which is not deductible for federal income tax purposes, is estimated to be 13%.

2 The portion of the 2018 industry issues support relating to influencing legislation is estimated to be 24%.

3 The Restoration, Operations, and Crisis Management Program is related to improvements to industry–wide responses to major outages (e.g. National Response Event); continuity of industry and business operations; and EEI's all hazards (storms, cyber, etc.) support and coordination of the industry during times of crises. No portion of this assessment is allocable to influencing legislation.

4 The Edison Foundation is an IRC 501(c)(3) educational and charitable organization. Contributions are deductible for federal income tax purposes to the extent provided by law. Please consult your tax advisor with respect to your specific situation.

PLEASE NOTE INFORMATION FOR ELECTRONIC PAYMENT

The following instructions should be used when transferring funds electronically (ACH or wire) to Edison Electric Institute:

Beneficiary's Bank: [redacted]
Bank's Address:
Bank's ABA Number:
Beneficiary:
Beneficiary's Acct No:
Beneficiary's Address: 701 Pennsylvania Avenue, NW
Washington, DC 20004-2696 USA
Beneficiary Reference: 2018 Membership Dues

Please refer any questions to Terri Oliva, EEI Controller: (202) 508-5541 *or* memberdues@eei.org

[redacted]

I&E Exhibit No. 1
Schedule 13
Page 3 of 5

Edison Electric INSTITUTE

Invoice for Membership Dues

[redacted]

MR. ROBERT F. BEARD
PRESIDENT AND CEO UGI UTILITIES
UGI CORPORATION
2525 N 12TH ST, SUITE 360
READING, PA 19612

Date	Invoice Number
12/10/2018	DUES201956

Payment due on or before 1/31/2019

Description	Total
2019 EEI Membership Dues for:	
Regular Activities of Edison Electric Institute [1]	$50,000
Industry Issues [2]	5,000
Restoration, Operations, and Crisis Management Program [3]	1,000
2019 Contribution to The Edison Foundation, which funds IEI [4]	~~5,000~~
[redacted] **Total**	$ 56,000 **$61,000**

1 The portion of 2019 membership dues relating to influencing legislation, which is not deductible for federal income tax purposes, is estimated to be 13%.

2 The portion of the 2019 industry issues support relating to influencing legislation is estimated to be 24%.

3 The Restoration, Operations, and Crisis Management Program is related to improvements to industry–wide responses to major outages (e.g. National Response Event); continuity of industry and business operations; and EEI's all hazards (storms, cyber, etc.) support and coordination of the industry during times of crises. No portion of this assessment is allocable to influencing legislation.

4 The Edison Foundation is an IRC 501(c)(3) educational and charitable organization. Contributions are deductible for federal income tax purposes to the extent provided by law. Please consult your tax advisor with respect to your specific situation.

PLEASE NOTE INFORMATION FOR ELECTRONIC PAYMENT

The following instructions should be used when transferring funds electronically (ACH or wire) to Edison Electric Institute:

Beneficiary's Bank: [redacted]
Bank's Address:
Bank's ABA Number:
Beneficiary:
Beneficiary's Acct No:
Beneficiary's Address: 701 Pennsylvania Avenue, NW
Washington, DC 20004-2696 USA
Beneficiary Reference: 2019 Membership Dues

Please refer any questions to Terri Oliva, EEI Assistant Treasurer: (202) 508-5541 *or* memberdues@eei.org

Invoice for Membership Dues

Edison Electric INSTITUTE

MR. ROBERT F. BEARD
PRESIDENT AND CEO, UGI UTILITIES
UGI CORPORATION
1 UGI DRIVE
DENVER, PA 17517

Date	Invoice Number
12/11/2019	DUES202056

Payment due on or before 1/31/2020

Description	Total
2020 EEI Membership Dues for:	
Regular Activities of Edison Electric Institute [1]	**$50,000**
Industry Issues [2]	**$5,000**
Restoration, Operations, and Crisis Management Program [3]	**$1,000**
2020 Contribution to The Edison Foundation, which funds IEI [4]	**$5,000**
Total	**$61,000**

1 The portion of 2020 membership dues relating to influencing legislation, which is not deductible for federal income tax purposes, is estimated to be 13%.

2 The portion of the 2020 industry issues support relating to influencing legislation is estimated to be 24%.

3 The Restoration, Operations, and Crisis Management Program is related to improvements to industry–wide responses to major outages (e.g. National Response Event); continuity of industry and business operations; and EEI's all hazards (storms, wildfires, cyber, etc.) support and coordination of the industry during times of crises. No portion of this assessment is allocable to influencing legislation.

4 The Edison Foundation is an IRC 501(c)(3) educational and charitable organization. Contributions are deductible for federal income tax purposes to the extent provided by law. Please consult your tax advisor with respect to your specific situation.

PLEASE NOTE INFORMATION FOR ELECTRONIC PAYMENT

The following instructions should be used when transferring funds electronically (ACH or wire) to Edison Electric Institute:

Beneficiary's Bank: [redacted]
Bank's Address:
Bank's ABA Number:
Beneficiary:
Beneficiary's Acct No:
Beneficiary's Address: 701 Pennsylvania Avenue, NW
Washington, DC 20004-2696 USA
Beneficiary Reference: 2020 Membership Dues

Please refer any questions to Terri Oliva, Executive Director, Human Resources and Assistant Treasurer: (202) 508-5541 *or* memberdues@eei.org

Invoice for Membership Dues

Edison Electric INSTITUTE

MR. ROBERT F. BEARD
EVP NATURAL GAS AND CEO UGI UTILITIES
UGI CORPORATION
1 UGI DRIVE
DENVER, PA 17517

Date	Invoice Number
11/11/2020	DUES202157

Payment due on or before 1/31/2021

Description	Total
2021 EEI Membership Dues for:	
Regular Activities of Edison Electric Institute [1]	$50,000
Industry Issues [2]	$5,000
Restoration, Operations, and Crisis Management Program [3]	$1,000
2021 Contribution to The Edison Foundation, which funds IEI [4]	$5,000
Total	**$61,000**

1 The portion of 2021 membership dues relating to influencing legislation, which is not deductible for federal income tax purposes, is estimated to be 13%.

2 The portion of the 2021 industry issues support relating to influencing legislation is estimated to be 22%.

3 The Restoration, Operations, and Crisis Management Program is related to improvements to industry–wide responses to major outages (e.g. National Response Event); continuity of industry and business operations; and EEI's all hazards (storms, wildfires, cyber, etc.) support and coordination of the industry during times of crises. No portion of this assessment is allocable to influencing legislation.

4 The Edison Foundation is an IRC 501(c)(3) educational and charitable organization. Contributions are deductible for federal income tax purposes to the extent provided by law. Please consult your tax advisor with respect to your specific situation.

PLEASE NOTE INFORMATION FOR ELECTRONIC PAYMENT

The following instructions should be used when transferring funds electronically (ACH or wire) to Edison Electric Institute:

Beneficiary's Bank: [redacted]
Bank's Address:
Bank's ABA Number:
Beneficiary:
Beneficiary's Acct No:
Beneficiary's Address: 701 Pennsylvania Avenue, NW
Washington, DC 20004-2696 USA
Beneficiary Reference: 2021 Membership Dues

Please refer any questions to Terri Oliva, Executive Director, Human Resources and Assistant Treasurer: (202) 508-5541 *or* memberdues@eei.org

I&E-RE-63

Request:

Reference UGI Electric Statement No. 4, p. 12 and Exhibit A – FPFTY, Schedule C-4, p. 8 concerning the tax lag day calculations for cash working capital:

A. Verify the anticipated payment dates in column [1].

B. Provide an updated Schedule C-4 if the response to Part A has any changes.

Response:

A. The payment date for the first payment of federal income tax as noted on Schedule C-4, p. 8, Line 2 should be 1/15/2022 and the PA Property Tax amounts should be 4/30/2022 and 8/31/2022. All other payment dates listed are generally when the payments are due and paid.

B. Please see Attachment I&E-RE-63 (B). If the Company had used the payment dates indicated above, the impact would have been to decrease the working capital requirement by $11,000. This adjustment will be reflected at the appropriate time.

Prepared by or under the supervision of: Vivian K. Ressler

I&E Exhibit No. 1
Schedule 14
Page 2 of 2

UGI Utilities, Inc. - Electric Division
Before the Pennsylvania Public Utility Commission
Fully Projected Future Period - 12 Months Ended September 30, 2022

Schedule **C-4**
Witness: **V. K. Ressler**

Tax Lag Day Calculations

Line #	Description	[1] Payment Dates	[2] Mid-Point of Service Period	[3] Lead (Lag) Payment Days	[4] Payment Amount	[5] Weighted Lead (Lag) Dollars	[6] Payment Lead (Lag) Days	[7] Revenue (Lag) Days	[8] Net Payment Lead (Lag) Days	[9] Total Dollar Days	[10] Working Capital Amount
		Fully Projected		[1] - [2]		[3] * [4]	[5] / [4]		[6] - [7]		366
1	**FEDERAL INCOME TAX**				$ 1,568						
2	First Payment	01/15/22	04/01/22	76.00	$ 392	29,792					
3	Second Payment	03/15/22	04/01/22	17.00	392	6,664					
4	Third Payment	06/15/22	04/01/22	(75.00)	392	(29,400)					
5	Fourth Payment	09/15/22	04/01/22	(167.00)	392	(65,464)					
6	Total				$ 1,568	$ (58,408)	(37.25)	(60.14)	22.89	$ 35,892	$ 98
7	**STATE INCOME TAX**				$ 807						
8	First Payment	12/15/21	04/01/22	107.00	$ 202	21,578					
9	Second Payment	03/15/22	04/01/22	17.00	202	3,428					
10	Third Payment	06/15/22	04/01/22	(75.00)	202	(15,125)					
11	Fourth Payment	09/15/22	04/01/22	(167.00)	202	(33,678)		c			
12	Total				$ 807	(23,797)	(29.50)	(60.14)	30.64	$ 24,716	$ 68
13	**PA PROPERTY TAX**				$ 80						
14	First Payment	04/30/22	04/01/22	(29.00)	$ 40	(1,167)					
15	Second Payment	08/31/22	04/01/22	(152.00)	40	(6,117)					
16	Total				$ 80	(7,284)	(90.50)	(60.14)	(30.36)	$ (2,444)	$ (7)
17	**PURTA**				$ 60						
18	Payment	05/01/22	04/01/22	(30.00)	$ 60	(1,807)	(30.00)	(60.14)	30.14	$ 1,816	$ 5
19	Total Working Capital For Other Taxes										$ 164

UGI Utilities, Inc. - Electric Division
Before the Pennsylvania Public Utility Commission
Fully Projected Future Period - 12 Months Ended September 30, 2022
($ in Thousands)

-- I&E MODIFIED --

Working Capital

		[1]	[2]
Line No	**Description**	**Fully Projected 9/30/2022**	**Reference**
1	Working Capital for O & M Expense	$ 5,579	C-4, Page 2
2	Interest Payments	(234)	C-4, Page 7
3	Tax Payment Lag Calculations	164	C-4, Page 8
4	Prepaid Expenses	1,962	C-4, Page 9
5	Total Cash Working Capital Requirements	$ 7,470	

UGI Utilities, Inc. - Electric Division
Before the Pennsylvania Public Utility Commission
Fully Projected Future Period - 12 Months Ended September 30, 2022
($ in Thousands)

-- I&E MODIFIED --

Summary of Working Capital

		[1]	[2]	[3]	[4]	[5]
Line #	Description	Reference	Test Year Expenses	Factor	Number of (Lead) / Lag Days [2] * [3]	Totals
	WORKING CAPITAL REQUIREMENT					
1	REVENUE LAG DAYS	Page 3				60.14
2	EXPENSE LAG DAYS	Page 4				
3	Payroll	Sch D-7	$ 5,911	12.00	$ 70,926	
4	Purchased Power Costs	Sch D-6	41,179	30.63	1,261,476	
5	Other Expenses	L 19 - L 2 to L 4	18,429	30.70	565,766	
6	Total	Sum (L 3 to L 5)	$ 65,518		$ 1,898,169	
7	O & M Expense Lag Days	L6, C 4 / C 2				28.97
8	Net (Lead) Lag Days	L 1 - L 7				31.17
9	Operating Expenses Per Day	L 6, C 2 / 366				$ 179
10	Working Capital for O & M Expense	L 8 * L 9				$ 5,579
11	Interest Payments	Page 7				(234)
12	Tax Payment Lag Calculations	Page 8				164
13	Prepaid Expenses	Page 9				1,962
14	Total Working Capital Requirement	Sum (L 10 to L 13)				$ 7,470
15	Pro Forma O & M Expense -- I&E Modified		$ 67,202	JZ O&M adjustments excluding uncollectibles		
	Less:					
16	Uncollectible Expense -- I&E Modified		1,684	JZ uncollectible adjustment		
17	Sub-Total		1,684			
18	Pro Forma Cash O&M Expense		$ 65,518			

UGI Utilities, Inc. - Electric Division
Before the Pennsylvania Public Utility Commission
Fully Projected Future Period - 12 Months Ended September 30, 2022

-- I&E MODIFIED --

Tax Lag Day Calculations

Line #	Description	[1] Payment Dates	[2] Mid-Point of Service Period	[3] Lead (Lag) Payment Days	[4] Payment Amount	[5] Weighted Lead (Lag) Dollars	[6] Payment Lead (Lag) Days	[7] Revenue (Lag) Days	[8] Net Payment Lead (Lag) Days	[9] Total Dollar Days	[10] Working Capital Amount
		Fully Projected		[1] - [2]		[3] * [4]	[5] / [4]		[6] - [7]		366
1	**FEDERAL INCOME TAX**				$ 1,568						
2	First Payment	01/15/22 I&E-RE-63	04/01/22	76.00	$ 392	29,792					
3	Second Payment	03/15/22	04/01/22	17.00	392	6,664					
4	Third Payment	06/15/22	04/01/22	(75.00)	392	(29,400)					
5	Fourth Payment	09/15/22	04/01/22	(167.00)	392	(65,464)					
6	Total				$ 1,568	$ (58,408)	(37.25)	(60.14)	22.89	$ 35,892	$ 98
7	**STATE INCOME TAX**				$ 807						
8	First Payment	12/15/21	04/01/22	107.00	$ 202	21,583					
9	Second Payment	03/15/22	04/01/22	17.00	202	3,429					
10	Third Payment	06/15/22	04/01/22	(75.00)	202	(15,128)					
11	Fourth Payment	09/15/22	04/01/22	(167.00)	202	(33,686)		c			
12	Total				$ 807	(23,802)	(29.50)	(60.14)	30.64	$ 24,722	$ 68
13	**PA PROPERTY TAX**				$ 80						
14	First Payment	04/30/22 I&E-RE-63	04/01/22	(29.00)	$ 40	(1,167)					
15	Second Payment	08/31/22 I&E-RE-63	04/01/22	(152.00)	40	(6,117)					
16	Total				$ 80	(7,284)	(90.50)	(60.14)	(30.36)	$ (2,444)	$ (7)
17	**PURTA**				$ 60						
18	Payment	05/01/22	04/01/22	(30.00)	$ 60	(1,807)	(30.00)	(60.14)	30.14	$ 1,816	$ 5
19	Total Working Capital For Other Taxes										$ 164

I&E Statement No. 2
Witness: Anthony Spadaccio

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

UGI UTILITIES, INC. – ELECTRIC DIVISION

Docket No. R-2021-3023618

Direct Testimony

of

Anthony Spadaccio, CRRA

Bureau of Investigation & Enforcement

Concerning:

Rate of Return

TABLE OF CONTENTS

INTRODUCTION OF WITNESS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Anthony Spadaccio. My business address is Pennsylvania Public Utility Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg, PA 17120.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Pennsylvania Public Utility Commission (Commission) in the Bureau of Investigation & Enforcement (I&E) as a Fixed Utility Financial Analyst.

Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL EXPERIENCE?

A. My educational and professional experience is set forth in Appendix A, which is attached.

Q. PLEASE DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.

A. I&E is responsible for representing the public interest in rate and other proceedings before the Commission. I&E's analysis in this proceeding is based on its responsibility to represent the public interest. This responsibility requires balancing the interests of ratepayers, the utility company, and the regulated community as a whole.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my direct testimony is to address rate of return, including capital structure, cost of long-term debt, the cost of equity, and the overall fair rate of return for UGI Utilities, Inc. – Electric Division (UGI Electric or Company).

Q. DOES YOUR TESTIMONY INCLUDE AN EXHIBIT?

A. Yes. I&E Exhibit No. 2 contains schedules relating to my testimony.

<u>BACKGROUND</u>

Q. WHAT IS THE GENERAL DEFINITION OF RATE OF RETURN IN THE CONTEXT OF A RATE CASE?

A. Rate of return is one of the components of the revenue requirement formula. Rate of return is the amount of revenue an investment generates in the form of net income and is usually expressed as a percentage of the amount of capital invested over a given period of time.

Q. WHAT IS THE REVENUE REQUIREMENT FORMULA?

A. The revenue requirement formula used in base rate cases is as follows:

RR = E + D + T + (RB x ROR)

Where:

RR	=	Revenue Requirement
E	=	Operating Expenses
D	=	Depreciation Expense
T	=	Taxes
RB	=	Rate Base
ROR	=	Overall Rate of Return

In the above formula, the rate of return is expressed as a percentage. The calculation of that percentage is independent of the determination of the appropriate rate base value for ratemaking purposes. As such, the appropriate total dollar return is dependent upon the proper computation of the rate of return and the proper valuation of the Company's rate base.

Q. WHAT CONSTITUTES A FAIR AND REASONABLE OVERALL RATE OF RETURN?

A. A fair and reasonable overall rate of return is one that will allow the utility an *opportunity* to recover those costs prudently incurred by all classes of capital used to finance the rate base during the prospective period in which its rates will be in effect.

The *Bluefield Water Works & Improvements Co. v. Public Service Comm. of West Virginia*, 262 U.S. 679, 692-93 (1923), and the *FPC v. Hope Natural Gas Co.,* 320 U.S. 591, 603 (1944) cases set forth the principles that are generally accepted by regulators throughout the country as the appropriate criteria for measuring a fair rate of return:

1. A utility is entitled to a return similar to that being earned by other enterprises with corresponding risks and uncertainties, but not as high as those earned by highly profitable or speculative ventures.
2. A utility is entitled to a return level reasonably sufficient to assure financial soundness.
3. A utility is entitled to a return sufficient to maintain and support its credit and raise necessary capital.

4. A fair return can change (increase or decrease) along with economic conditions and capital markets.

Q. EXPLAIN HOW THE OVERALL RATE OF RETURN IS TRADITIONALLY CALCULATED IN BASE RATE PROCEEDINGS.

A. In base rate proceedings, the overall rate of return is traditionally calculated using the weighted average cost of capital method. To calculate the weighted average cost of capital, a company's capital structure must first be determined by comparing the percentage of each capitalization component, which has financed rate base, to total capital. In UGI Electric's case, the capital components consist of long-term debt and common equity. Next, the effective cost rate of each capital structure component must be determined. The historical component of the cost rate of debt can be computed accurately, and any future debt issuances are based on estimates. The cost rate of common equity is not fixed and is more difficult to measure. Because of this difficulty, a proxy group is used as discussed later in this testimony. Next, each capital structure component percentage is multiplied by its corresponding effective cost rate to determine the weighted capital component cost rate. The I&E table in the *"I&E Position"* section below demonstrates the interaction of each capital structure component and its corresponding effective cost rate. Finally, the sum of the weighted cost rates produces the overall rate of return. This overall rate of return is multiplied by the rate base to determine the return portion of a company's revenue requirement.

COMPANY'S RATE OF RETURN CLAIM

Q. DISCUSS THE COMPANY'S RATE OF RETURN CLAIM.

A. Paul R. Moul is the primary witness addressing rate of return. Throughout his direct testimony (UGI Electric Statement No. 5), Mr. Moul provides analysis for the claimed capital structures, long-term debt, and cost of common equity for UGI Electric.

Q. PLEASE SUMMARIZE THE COMPANY'S RATE OF RETURN CLAIM.

A. Mr. Moul recommends the following rate of return for the Company based on its Fully Projected Future Test Year (FPFTY) ending September 30, 2022:[1]

Company
Summary of Cost of Capital

Type of Capital	**Ratio**	**Cost Rate**	**Weighted Cost**
UGI Utilities, Inc. - Electric Division			
Long-Term Debt	48.80%	4.25%	2.07%
Common Equity	51.20%	10.75%	5.50%
Total	100.00%		7.57%

1 UGI Electric Exhibit B, Schedule 1, p. 1.

I&E POSITION

Q. PLEASE SUMMARIZE YOUR RATE OF RETURN RECOMMENDATION FOR THE COMPANY.

A. I recommend the following rate of return for the Company:[2]

I&E
Summary of Cost of Capital

Type of Capital	Ratio	Cost Rate	Weighted Cost
UGI Utilities, Inc. - Electric Division			
Long-term Debt	48.80%	4.25%	2.07%
Common Equity	51.20%	8.58%	4.39%
Total	100.00%		6.46%

PROXY GROUP

Q. WHAT IS A PROXY GROUP AS USED IN BASE RATE CASES?

A. A proxy group is a group of companies that acts as a benchmark for determining the subject utility's rate of return in a base rate case.

Q. WHAT ARE THE REASONS FOR USING A PROXY GROUP?

A. A proxy group's cost of equity is used as a benchmark to satisfy the long-established guideline of utility regulation that seeks to provide the subject utility with the opportunity to earn a return similar to that of enterprises with corresponding risks and uncertainties.

2 I&E Exhibit No. 2, Schedule 1.

A proxy group is typically utilized since the use of data exclusively from one company may be less reliable. The lower reliability occurs because the data for one company may be subject to events that can cause short-term anomalies in the marketplace. The rate of return on common equity for a single company could become distorted in these circumstances and would therefore not be representative of similarly situated companies. Therefore, a proxy group has the effect of smoothing out potential anomalies associated with a single company.

Q. WHAT CRITERIA DID YOU USE IN SELECTING YOUR PROXY GROUP?

A. The criteria for my proxy group was designed to select companies that are representative of UGI Electric. I applied the following criteria to Value Line's East, Central, and West Electric Utility groups:

1. Fifty percent or more of the company's revenues must be generated from the regulated electric utility industry.
2. The company's stock must be publicly traded.
3. Investment information for the company must be available from more than one source, which includes Value Line.
4. The company must not be currently involved in an announced merger or the target of an acquisition.
5. The company must have four consecutive years of historic earnings data.
6. The company must be operating in a state that has a deregulated electric utility market.

Q. WHAT CRITERIA DID MR. MOUL USE IN SELECTING HIS ELECTRIC PROXY GROUP COMPANIES?

A. Mr. Moul determined his proxy group of nine electric companies by using the following criteria:[3]

1. Have publicly traded common stock.
2. Are contained in The Value Line Investment Survey and are classified in the Electric Utility East group.
3. Are not currently the target of an announced merger or acquisition.
4. Are not engaged in the construction of a nuclear generating plant.
5. Have not recently reduced its common dividend.

Q. WHAT PROXY GROUP DID YOU USE IN YOUR ANALYSIS?

A. I included the following fifteen companies in my proxy group:

Ameren Corp.	AEE
American Electric Power Company Inc.	AEP
CMS Energy Corp.	CMS
Consolidated Edison Inc.	ED
Dominion Energy	D
Duke Energy Corp New	DUK
Entergy Corp.	ETR
Eversource Energy	ES
FirstEnergy Corp.	FE
IDACORP Inc.	IDA
NorthWestern Corporation	NWE
Portland General Electric Company	POR
PPL Corporation	PPL
Public Service Enterprise Group Inc.	PEG
Xcel Energy Inc.	XEL

[3] UGI Electric Statement No. 5, p. 4, lines 15-19.

Q. WHAT PROXY GROUP DID MR. MOUL USE IN HIS ANALYSIS?

A. Mr. Moul utilized the following nine companies:[4]

Avangrid, Inc.	AGR
Consolidated Edison Inc.	ED
Duke Energy Corp.	DUK
Eversource Energy	ES
Exelon Corp.	EXC
FirstEnergy Corp.	FE
NextEra Energy	NEE
PPL Corporation	PPL
Public Serv. Enterprise	PEG

Q. DO YOU AGREE WITH MR. MOUL'S ELECTRIC PROXY GROUP?

A. Not entirely. While we do have six companies that match, I use nine companies that Mr. Moul does not, and he uses three companies that I do not.

Q. PLEASE LIST THE THREE COMPANIES MR. MOUL INCLUDES THAT YOU DO NOT AND EXPLAIN WHY YOU HAVE EXCLUDED THEM FROM YOU PROXY GROUP.

A. The three companies in question and the reasons for my exclusion are as follows: (1) Exelon Corp., which violates my first criterion that dictates 50% or more of a company's revenue must be generated from regulated electric utility operations; (2) Avangrid, Inc., which violates my fourth criterion as the Company is currently in the process of acquiring PNM Resources, Inc. The deal includes acquiring the whole

4 UGI Electric Exhibit B, Schedule 3, p. 2.

company and is valued at over $8 billion; and (3) NextEra Energy, which does not meet my sixth criterion that a company must operate in a state that has a deregulated electric utility market**.**

Q. PLEASE LIST THE NINE COMPANIES YOU INCLUDE THAT MR. MOUL DOES NOT AND EXPLAIN WHY HE HAS EXCLUDED THEM FROM HIS ELECTRIC GROUP.

A. The nine companies in question and the reasons for Mr. Moul's exclusion are as follows: (1-8) Ameren Corp., American Electric Power Company Inc., CMS Energy Corp., Entergy Corp., IDACORP Inc., NorthWestern Corp., Portland General Electric Company, and Xcel Energy Inc. all violate his second criterion that a company must be classified in the Electric Utility *East* group in The Value Line Investment Survey. These companies are all part of either the *Central* or *West* Electric Utility groups which I allow to expand the number of companies in my proxy group; and (9) Dominion Energy, which violates his fifth criterion that a company has not recently reduced its common dividend.

CAPITAL STRUCTURE

Q. WHAT IS A CAPITAL STRUCTURE?

A. A capital structure represents how a firm has financed its rate base with different sources of funds. The primary sources of funding are long-term debt and common equity. A capital structure may also include short-term debt and preferred stock, which is not the case for UGI Electric.

Q. WHAT IS THE COMPANY'S CLAIMED CAPITAL STRUCTURE?

A. The Company's claimed capital structure is summarized in the table below:[5]

UGI - ELECTRIC DIVISION 09/30/2022	
Long-Term Debt	48.80%
Common Equity	51.20%
	100.00%

Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIMED CAPITAL STRUCTURE?

A. Mr. Moul explains that UGI Utilities Inc. (UGIU) raises its own long-term debt directly in the capital markets and that the capital structure for UGIU should be used in determining the rate of return for each of its utility divisions.[6]

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S CAPITAL STRUCTURE?

A. I recommend using the Company's claimed capital structure as presented in the table above.

5 UGI Electric Statement No. 5, p. 17, lines 4-6 and UGI Electric Exhibit B, Schedule 5.
6 UGI Electric Statement No. 5, p. 14, ln. 19 through p. 15, ln. 3.

Q. WHAT IS THE BASIS FOR YOUR CAPITAL STRUCTURE RECOMMENDATION?

A. I recommend using the Company's claimed capital structure as it falls within the range of my proxy group's 2019 capital structures. This range contains average capital structure ratios from 43.80% to 73.15% debt and 26.79% to 56.20% equity, with a five-year average of 55.49% debt and 44.43% common equity.[7] Although the Company's capital structure is certainly more equity heavy than the proxy group average, I am not recommending that it be adjusted given that it falls within the proxy group range.

<u>COST RATE OF LONG-TERM DEBT</u>

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S COST RATE OF LONG-TERM DEBT?

A. I recommend using the Company's claimed long-term debt cost rate of 4.25% for the FPFTY.[8]

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION TO USE THE COMPANY'S CLAIMED COST RATE OF LONG-TERM DEBT?

A. The Company's claimed cost rate of long-term debt is reasonable, as it is representative of the industry. It falls within my proxy group's implied long-term debt cost range of 3.89% to 5.60%, with an average implied long-term debt cost of

[7] I&E Exhibit No. 2, Schedule 2.
[8] UGI Electric Statement No. 5, p. 18, lines 3-6.

4.63%.[9] Additionally, the Company's forecasted cost of long-term debt is trending downward from the historic test year ended September 30, 2020 through the FPFTY.[10] This downward trend is beneficial to ratepayers; therefore, I recommend the claimed cost rate of long-term debt be used.

COST OF COMMON EQUITY

COMMON METHODS

Q. WHAT METHODS ARE COMMONLY PRESENTED BY UTILITIES IN DETERMINING THE COST OF COMMON EQUITY?

A. Four methods commonly presented to estimate the cost of common equity are the Discounted Cash Flow (DCF), the Capital Asset Pricing Model (CAPM), the Risk Premium (RP) Method, and the Comparable Earnings (CE) Method.

Q. WHAT IS THE THEORETICAL BASIS FOR THE DCF METHOD?

A. The DCF method is the "dividend discount model" of financial theory, which maintains that the value (price) of any security or commodity is the discounted present value of all future cash flows. The DCF method assumes that investors evaluate stocks in the classical economic framework, which maintains that the value of a financial asset is determined by its earning power, or its ability to generate future cash flows.

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9 I&E Exhibit No. 2, Schedule 3.

10 UGI Electric Exhibit B, Schedule 6.

Q. WHAT IS THE THEORETICAL BASIS FOR THE CAPM?

A. The CAPM describes the relationship of a stock's investment risk and its market rate of return. It identifies the rate of return investors expect so that it is comparable with returns of other stocks of similar risk. This method hypothesizes that the investor-required return on a company's stock is equal to the return on a "risk free" asset plus an equity premium reflecting the company's investment risk. In the CAPM, two types of risk are associated with a stock: (1) firm-specific risk (unsystematic risk); and (2) market risk (systematic risk), which is measured by a firm's beta. The CAPM allows for investors to receive a return only for bearing systematic risk. Unsystematic risk is assumed to be diversified away, and therefore, does not earn a return.

Q. WHAT IS THE THEORETICAL BASIS FOR THE RP METHOD?

A. The theoretical basis for the RP method is a simplified version of the CAPM. The RP method's theory is that common stock is riskier than debt, thus, investors require a higher expected return on stocks than bonds. In the RP approach, the cost of equity is made up of the cost of debt and a risk premium. While the CAPM uses the market risk premium, it also directly measures the systematic risk of the company group using beta. The RP method does not measure the specific risk of the company.

Q. WHAT IS THE THEORETICAL BASIS FOR THE CE METHOD?

A. The CE method utilizes the concept of opportunity cost. This means that investors will likely dedicate their capital to the investment offering the highest return with similar risk to alternative investments. Unlike the DCF, CAPM, and the RP methods, the CE method is not market-based and relies upon historic accounting data. The most problematic issue with the CE method is determining what constitutes comparable companies.

Q. WHAT METHOD DO YOU RECOMMEND USING TO DETERMINE AN APPROPRIATE COST OF COMMON EQUITY FOR UGI ELECTRIC?

A. I recommend using the DCF method as the primary method to determine the cost of common equity. Additionally, I recommend using the results of the CAPM as a comparison to the DCF results. This is consistent with the methodology historically used by the Commission in base rate proceedings as recently as 2017, 2018, 2020, and 2021.[11]

Q. PLEASE EXPLAIN WHY YOU CHOSE TO USE THE DCF IN YOUR ANALYSIS.

A. I have used the DCF as the primary method for a variety of reasons. The DCF is appealing to investors since it is based upon the concept that the receipt of dividends in addition to expected appreciation is the total return requirement determined by the

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[11] *Pa. PUC v. City of DuBois – Bureau of Water*, Docket No. R-2016-2554150, pp. 96-98 (Order Entered March 28, 2017) (Disposition of Cost Rate Models); *Pa. PUC v. UGI Utilities, Inc. – Electric Division*, Docket No. R-2017-2640058, p. 119 (Order Entered October 25, 2018) (Disposition of Cost of Common Equity); *Pa. PUC v. Wellsboro Electric Company*, Docket No. R-2019-3008208, pp. 80-82 (Order Entered April 29, 2020) (Disposition of Primary Methodology to Determine ROE); *Pa. PUC v. Citizens' Electric Company of Lewisburg, PA*, Docket No. R-2019-3008212, pp. 91-93 (Order Entered April 27, 2020) (Disposition of Cost of Common Equity); *Pa. PUC v. Valley Energy, Inc.*; Docket No. R-2019-3008209, pp. 102-104 (Order Entered April 27, 2020) (Disposition of Methods for Determining the Cost of Common Equity); *Pa. PUC v. Columbia as of Pennsylvania, Inc.*, Docket No. R-2020-3018835, p. 131 (Order Entered February 19, 2021) (Disposition of Methods for Determining the Cost of Common Equity).

market.[12] The use of a growth rate and expected dividend yield are also strengths of the DCF, as this recognizes the time value of money and is forward-looking. The use of the utilities' own, or in this case, the proxy group's stock prices and growth rates directly in the calculation also causes the DCF to be industry and company-specific. The DCF method is the superior method for determining the rate of return for the current economic market because it measures the cost of equity directly.

Q. PLEASE EXPLAIN WHY YOU ALSO CHOSE TO USE THE CAPM IN YOUR ANALYSIS.

A. I have included a CAPM analysis as a comparison because the CAPM and the DCF include inputs that allow the results to be specific to the utility industry, although the CAPM is far less responsive to changes in the industry than the DCF. The CAPM is based on the performance of U.S. Treasury bonds and the performance of the market as measured through the S&P 500 and is company-specific only through the use of beta. Beta reflects a stock's volatility relative to the overall market, thereby incorporating an industry-specific aspect to the CAPM, but only as a measure of how reactive the industry is compared to the market as a whole. Although changes in the utility industry are more likely to be accurately reflected in the DCF, which uses the companies' actual prices, dividends, and growth rates, I have included the results of my CAPM analysis because changes in the market, whether as a whole or specific to the utility industry, affect the outcome of each method in different ways. Although I

[12] David C. Parcell, "The Cost of Capital – A Practitioner's Guide," 2010 Edition, p. 151.

have chosen to use the CAPM as a secondary method, it does have several disadvantages and should not be used as a primary method.

Q. EXPLAIN THE DISADVANTAGES OF THE CAPM.

A. The CAPM, and the RP method by virtue of its similarities to the CAPM, give results that indicate to an investor what the equity cost rate should be if current economic and regulatory conditions are the same as those present during the historical period in which the risk premiums were determined. This is because beta, which is the only company-specific variable in the CAPM model, measures the *historical* volatility of a stock compared to the *historical* overall market return. Reliance on historical values is especially problematic now given the recent impact of the coronavirus on economic conditions. Although the CAPM and RP results can be useful to investors in making rational buy and sell decisions within their portfolios, the DCF method is the superior method for determining the rate of return for the current economic market and measuring the cost of equity directly. The CAPM and the RP methods are less reliable indicators because they measure the cost of equity indirectly and risk premiums vary depending on the debt and equity being compared. Also, regulators can never be certain that economic and regulatory conditions underlying the historical period during which the risk premiums were calculated are the same today or will be the same in the future.

Q. IS THERE ANY ACADEMIC EVIDENCE THAT QUESTIONS THE CREDIBILITY OF THE CAPM MODEL?

A. Yes. An article, "Market Place; A Study Shakes Confidence in the Volatile-Stock Theory," which appeared in the *New York Times* on February 18, 1992, summarized a CAPM study conducted by professors Eugene F. Fama and Kenneth R. French.[13] Their study examined the importance of beta, CAPM's risk factor, in explaining returns on common stock. In CAPM theory a stock with a higher beta should have a higher expected return. They found that the model did not do well in predicting actual returns and suggested the use of more elaborate multi-factor models.

A more recent article, "The Capital Asset Pricing Model: Theory and Evidence," which appeared in the *Journal of Economic Perspectives,* states that "the attraction of the CAPM is that it offers powerful and intuitively pleasing predictions about how to measure risk and the relation between expected return and risk. Unfortunately, the empirical record of the model is poor, poor enough to invalidate the way it is used in applications."[14] As a result, I conclude that the CAPM's relevance to the investment decision making process does not carry over into the regulatory rate setting process.

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[13] Berg, Eric N. "Market Place; A Study Shakes Confidence in the Volatile-Stock Theory" *The New York Times*, 18 Feb 1992: *nytimes.com* Web. 23 Mar 2016.

[14] Fama, Eugene F. and French, Kenneth R., "The Capital Asset Pricing Model: Theory and Evidence." *Journal of Economic Perspectives* (2004): Volume 18, Number 3, pp. 25-46.

Q. PLEASE EXPLAIN WHY YOU HAVE CHOSEN TO EXCLUDE THE RP METHOD FROM YOUR ANALYSIS.

A. The RP method is excluded because it is a simplified version of the CAPM and is subject to the same faults explained above. Most importantly, unlike the CAPM, the RP method does not recognize company-specific risk through beta.

Q. EXPLAIN WHY YOU HAVE CHOSEN TO EXCLUDE THE CE METHOD IN YOUR ANALYSIS.

A. The CE method is excluded because the choice of which companies are comparable is subjective, and it is debatable whether historic accounting values are representative of the future. Moreover, its historical usage in this regulatory forum has been minimal.

SUMMARY OF THE COMPANY'S RESULTS

Q. WHAT ARE THE RESULTS OF THE COMPANY'S COST OF EQUITY ANALYSES?

A. Mr. Moul employed the DCF, CAPM, RP, and CE methods in analyzing the Company's cost of equity. He makes several adjustments to his results, which include consideration for size, risk, and leverage. Ultimately, Mr. Moul opines that a cost of equity of 10.75% is warranted in order for the Company to compete in capital markets, attain reasonable credit quality, and sustain its cash flow to maintain its high levels of capital expenditures.[15]

[15] UGI Electric Statement No. 5, p. 41, lines 15-18.

<u>I&E RECOMMENDATION</u>

Q. WHAT IS YOUR RECOMMENDED COST OF COMMON EQUITY FOR UGI ELECTRIC?

A. Based upon my analysis, I recommend a cost of common equity of 8.58%.

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. I arrived at this equity return using the DCF method. As explained above, I used my CAPM result only to present to the Commission a comparison to my DCF results. My DCF analysis employed a spot dividend yield, a 52-week dividend yield, and earnings growth forecasts.

<u>DISCOUNTED CASH FLOW (DCF)</u>

Q. PLEASE EXPLAIN YOUR DCF ANALYSIS.

A. My analysis employs the constant growth DCF model as portrayed in the following formula:

$$K = D_1/P_0 + g$$

Where:

K	=	Cost of equity
D_1	=	Dividend expected during the year
P_0	=	Current price of the stock
g	=	Expected growth rate

When a forecast of D_1 is not available, D_0 (the current dividend) must be adjusted by one half of the expected growth rate to account for changes in the dividend paid in period one. As forecasts for each company in my barometer group were available from Value Line, no dividends were adjusted for the purpose of my analysis.

Q. PLEASE EXPLAIN HOW YOU DEVELOPED THE DIVIDEND YIELDS USED IN YOUR DCF ANALYSIS.

A. A representative dividend yield must be calculated over a time frame that avoids the problems of both short-term anomalies and stale data series. For my DCF analysis, the dividend yield calculation places equal emphasis on the most recent spot and the 52-week average dividend yields. The following table summarizes my dividend yield computations for the proxy group:

Fifteen-Company Proxy Group	Dividend Yield[16]
Spot	3.85%
52-week average	3.75%
Average	3.80%

Q. WHAT INFORMATION DID YOU RELY UPON TO DETERMINE YOUR EXPECTED GROWTH RATE?

A. I have used five-year projected growth rate estimates from Value Line, Yahoo! Finance, Zacks, and Morningstar.

[16] I&E Exhibit No. 2, Schedule 4.

Q. WHAT WERE THE RESULTS OF YOUR FORECASTED EARNINGS GROWTH RATES?

A. The expected average growth rates for the fifteen-company proxy group ranged from -4.67% to 7.22% with an average of 3.93%. For the purpose of determining the growth estimate, I subsequently eliminated all negative projected growth rates and determined a new adjusted average of 4.78%.[17]

Q. EXPLAIN WHY YOU ELIMINATED ALL OF THE NEGATIVE GROWTH RATE PROJECTIONS.

A. While I believe that the use of a proxy group largely smooths out various anomalies, I feel that some of the growth projections were largely inconsistent and would have an unnecessary and unwarranted negative impact on my DCF analysis, which would adversely affect my recommendation for the Company's cost of common equity.

Q. WHAT IS THE RESULT OF YOUR DCF ANALYSIS BASED ON YOUR RECOMMENDED DIVIDEND YIELD AND GROWTH RATE?

A. The results of my DCF analysis are calculated as follows:[18]

K	=	D_1/P_0	+	g
8.58%	=	3.80%	+	4.78%

[17] I&E Exhibit No. 2, Schedule 5.
[18] I&E Exhibit No. 2, Schedule 6.

CAPITAL ASSET PRICING MODEL (CAPM)

Q. PLEASE EXPLAIN YOUR CAPM ANALYSIS.

A. My analysis employs the standard CAPM as portrayed in the following formula:

$$K = R_f + \beta(R_m - R_f)$$

Where:

K	=	Cost of equity
R_f	=	Risk-free rate of return
R_m	=	Expected rate of return on the overall stock market
β	=	Beta measures the systematic risk of an asset

Q. WHAT IS BETA AS EMPLOYED IN YOUR CAPM ANALYSIS?

A. Beta is a measure of the systematic risk of a stock in relation to the rest of the stock market. A stock's beta is estimated by calculating the linear regression of a stock's return against the return on the overall stock market. The beta of a stock with a price pattern identical to that of the overall stock market will equal one. A stock with a price movement that is greater than the overall stock market will have a beta that is greater than one and would be described as having more investment risk than the market. Conversely, a stock with a price movement that is less than the overall stock market will have a beta of less than one and would be described as having less investment risk than the market.

Q. WHAT BETA DID YOU CHOOSE FOR YOUR CAPM ANALYSIS?

A. In estimating an equity cost rate for my proxy group, I used the average of the betas for the companies as provided in the Value Line Investment Survey. The average beta for my proxy group is 0.86.[19]

Q. WHAT RISK-FREE RATE OF RETURN HAVE YOU CHOSEN FOR YOUR FORECASTED CAPM ANALYSIS?

A. I have chosen to use the risk-free rate of return (R_f) from the projected yield on 10-year Treasury Notes. While the yield on the short-term T-Bill is a more theoretically correct parameter to represent a risk-free rate of return, it can be extremely volatile. The volatility of short-term T-Bills is directly influenced by Federal Reserve policy. At the other extreme, the 30-year Treasury Bond exhibits more stability but is not risk-free. Long-term Treasury Bonds have substantial maturity risk associated with market risk and the risk of unexpected inflation. Long-term treasuries normally offer higher yields to compensate investors for these risks. As a result, I chose to use the yield on the 10-year Treasury Note because it mitigates the shortcomings of the other two alternatives. Additionally, the Commission agreed with I&E in the Company's previous base rate case and recognized the 10-year Treasury Note as the superior measure of the risk-free rate of return.[20] The forecasted yield on the 10-year Treasury Note, as seen in Blue Chip Financial Forecasts, is expected to range between 1.20% and 1.50% from the second quarter of 2021 through the second quarter of 2022, and it

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[19] I&E Exhibit No. 2, Schedule 7.

[20] *Pa. PUC v. UGI Utilities, Inc. – Electric Division;* Docket No. R-2017-2640058 (Order Entered October 25, 2018), p. 99 (Disposition of Capital Asset Pricing Model (CAPM)).

is forecasted to be 2.00% from 2022-2026. For my forecasted CAPM analysis, I chose 1.43%, which is the average of all the yield forecasts I observed.[21]

Q. HOW DID YOU DETERMINE THE RETURN ON THE OVERALL STOCK MARKET EMPLOYED IN YOUR FORECASTED CAPM ANALYSIS?

A. To arrive at a representative expected return on the overall stock market, I observed Value Line's 1700 stocks and the S&P 500. Value Line expects its universe of 1700 stocks to have an average yearly return of 9.79% over the next three to five years, based on a forecasted dividend yield of 2.00% and a yearly index appreciation of 35%. The S&P 500 Index is expected to have an average yearly return of 12.38% over the next five years, based upon Barron's forecasted dividend yield of 1.50% and Morningstar's expected increase in the S&P 500 Index of 10.80%.[22]

Q. WHAT IS THE EXPECTED RETURN ON THE OVERALL STOCK MARKET BASED ON YOUR FORECASTED ANALYSIS?

A. The expected return on the overall market is 11.09% for my forecasted analysis.[23]

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[21] I&E Exhibit No. 2, Schedule 8.
[22] I&E Exhibit No. 2, Schedule 9.
[23] I&E Exhibit No. 2, Schedule 9.

Q. WHAT IS THE COST OF EQUITY RESULT FROM YOUR CAPM ANALYSIS?

A. The result of my analysis is as follows:[24]

$$K = R_f + \beta(R_m - R_f)$$

$$9.73\% = 1.43\% + 0.86\ (11.09\% - 1.43\%)$$

<u>**CRITIQUE OF UGI ELECTRIC'S COST OF EQUITY RECOMMENDATION**</u>

Q. DO YOU AGREE WITH MR. MOUL'S PROPOSED COST OF EQUITY?

A. No. I disagree with Mr. Moul's proposed cost of equity analysis for several reasons. First, I disagree with the weights given to the results of Mr. Moul's CAPM, RP, and CE analyses in his recommendation. Second, I take issue with certain aspects of Mr. Moul's risk analysis of UGI Electric. Third, I disagree with his application of the DCF including the forecasted growth rate and leverage adjustment he uses. Finally, I do not agree with his use of the 30-year Treasury Bond in place of the 10-year Treasury Note, his inclusion of a size adjustment, and use of a double-adjusted beta in his CAPM analysis.

<u>**WEIGHTS GIVEN TO THE CAPM, RP, AND CE METHODS**</u>

Q. DO YOU AGREE WITH MR. MOUL'S RELIANCE ON THE CAPM AND RP MODELS?

A. No. While I am not opposed to providing the Commission the results of the CAPM

[24] I&E Exhibit No. 2, Schedule 10.

methodology for a point of comparison to the results of the DCF calculation, I am opposed to giving the CAPM and RP considerable weight. For the reasons I previously discussed in this testimony, it is inappropriate to give the CAPM and RP models similar weight to the DCF as Mr. Moul has done in creating his recommended cost of equity range.[25] As discussed above, the CAPM measures the cost of equity indirectly and can be manipulated by the time period chosen. Since the RP is a simplified version of the CAPM, it suffers these same flaws.

Q. DO YOU AGREE WITH MR. MOUL'S USE OF THE CE METHOD?

A. No. The companies in Mr. Moul's analysis are not utilities, and therefore, they are too dissimilar to be used in a CE analysis. The companies in Mr. Moul's CE proxy group are simply not comparable to electric utilities in terms of their business risk or financial risk profile. Electric utilities are monopolies, which are subject to very little competition, if any at all. Due to this minimal competition, utilities in general have very low business risk and are able to maintain higher financial risk profiles by employing more leverage. Conversely, since the companies in Mr. Moul's CE proxy group operate in an unregulated competitive environment with a higher level of business risk, they must maintain lower financial risk profiles by employing a smaller amount of leverage.

Further, in his CE analysis, Mr. Moul states, "I used 20% as the point where those returns could be viewed as highly profitable and should be excluded from the

[25] UGI Electric Statement No. 5, p. 6, line 8.

Comparable Earnings approach."[26] I do not believe this arbitrary use of 20% is justified, as I am unaware of any electric utility company that has been awarded or regularly earns a 20% return.

RISK ANALYSIS

Q. PLEASE SUMMARIZE MR. MOUL'S CLAIMS REGARDING RISK FACTORS THE COMPANY FACES.

A. Mr. Moul describes UGI Electric's claimed risk factors in two different sub-sections. In the first section, labeled "Electric Utility Risk Factors," he describes the *qualitative* risk factors. In this section, Mr. Moul discusses the potential for bypass and the cost of replacing aging infrastructure.[27] In the second section of his risk analysis, labeled "Fundamental Risk Analysis," he describes the *quantitative* risk factors. In this section, Mr. Moul discusses UGI Electric's credit quality, as well as many different financial metrics including size, common equity ratio, return on book equity, operating ratios, interest coverage, quality of earnings, internally generated funds, and betas.[28]

Q. WHAT ARE MR. MOUL'S CLAIMS REGARDING POTENTIAL RISK OF BYPASS?

A. Mr. Moul opines that electric utilities face declines in transmission and distribution

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[26] UGI Electric Statement No. 5, p. 40, lines 24-26.
[27] UGI Electric Statement No. 5, p. 6, ln. 15 through p. 9, ln. 16.
[28] UGI Electric Statement No. 5, p. 9, ln. 17 through p. 14, ln. 17.

revenues due to technological advances in micro-turbines, potential commercialization of fuel cells, development of wind and solar power, and the creation of micro-grids.[29]

Q. WHAT COMMENTS DO YOU HAVE REGARDING MR. MOUL'S CLAIMED RISK OF BYPASS FOR UGI ELECTRIC?

A. In response to I&E-RR-5-D, Mr. Moul concedes that he did not study the risk of bypass that each of the companies in his Electric Group face.[30] Since it is most likely all electric distribution companies face the same potential risks of bypass, it is reasonable to assume that UGI Electric's risk is no greater than any other company in Mr. Moul's or my proxy group. Additionally, in response to I&E-RR-6-D, Mr. Moul acknowledges that he is unaware of any significant impact on projected number of customers in any particular rate class due to competition or bypass.[31]

Q. WHAT CLAIM DOES MR. MOUL MAKE REGARDING ADDITIONAL RISK DUE TO UGI ELECTRIC'S COST OF REPLACING AGING INFRASTRUCTURE?

A. Mr. Moul states that there is added risk to electric delivery utilities because expenditures to replace aging infrastructure increase costs without any accompanying revenue increases aside from approved rate increases and utilization of a Distribution

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[29] UGI Electric Statement No. 5, p. 7, lines 7-12.
[30] I&E Exhibit No. 2, Schedule 11.
[31] I&E Exhibit No. 2, Schedule 12.

System Improvement Charge (DSIC), which he adds does not eliminate the need for periodic rate cases.[32]

Q. WHAT IS YOUR RESPONSE TO MR. MOUL'S CLAIM REGARDING RISK DUE TO REPLACING AGING INFRASTRUCTURE?

A. Every electric utility faces the same issues of upgrading or replacing its infrastructure. As costs for replacing infrastructure increase, UGI Electric, as well as any other company, has the option to file a base rate case at any time to address revenue inadequacy due to increasing costs, infrastructure replacement, or any associated issues. Base rate cases allow a utility to recover its costs and provide it the *opportunity* to earn a reasonable return on capital investments. The Commission also offers risk reducing mechanisms such as the DSIC and the FPFTY to help reduce any lag in recovery of infrastructure investment or other unforeseen expenditures. It is worth mentioning that these mechanisms were not designed to eliminate the need for base rate cases, but only to mitigate regulatory lag and support increasing infrastructure replacement needs. Finally, it is important to recognize that previous to UGI Electric's 2017 base rate case, the Company had not filed a base rate case for approximately 22 years. I believe this demonstrates that the Company has not had much concern for a lag in its recovery of various increasing expenditures.

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[32] UGI Electric Statement No. 5, p. 7, ln. 16 through p. 8, ln. 4.

Q. PLEASE DISCUSS THE CLAIMS MR. MOUL MAKES REGARDING QUANTITATIVE RISK FACTORS IN THE SECTION HE LABELS "FUNDAMENTAL RISK ANALYSIS."

A. Mr. Moul explains that it is necessary to establish a company's relative risk position within its industry through an analysis of quantitative and qualitative factors. In this section, Mr. Moul used various financial metrics to compare UGIU on a consolidated basis, to the S&P Public Utilities Index and his Electric Group.[33]

Q. WHAT ARE YOUR COMMENTS REGARDING MR. MOUL'S "FUNDAMENTAL RISK ANALYSIS?"

A. Mr. Moul's discussions regarding the Company's size as well as betas will be addressed and disputed below, in the "*Cost of Equity Adjustments*" section of my direct testimony. Throughout the remainder of his "fundamental risk analysis," Mr. Moul makes several statements to indicate that the Company has no more of a risk than any other company in his Electric Group. First, Mr. Moul acknowledges that the Company's long-term bond ratings are A2 from Moody's and A- from Fitch, both of which signify a low credit risk and a strong capacity to meet financial obligations. Further, he states, "The Company's credit quality is fairly similar to that of the Electric Group…"[34]

Next, while discussing common equity ratios, Mr. Moul states, "The five-year average common equity ratios, based on permanent capital based on book value, were

[33] UGI Electric Statement No. 5, p. 9, ln. 17 through p. 14, ln. 17.
[34] UGI Electric Statement No. 5, p. 10, ln. 24 through p. 11, ln. 4.

57.6% for UGIU, 47.7% for the Electric Group, and 42.2% for the S&P Public Utilities." He claims that for this case, the Company's common equity ratio is trending downward and below its historical average, however, he acknowledges that the financial risk of UGIU has been lower than that of the Electric group during the past five years.[35]

Then, regarding operating ratios, Mr. Moul states, "The operating ratio for UGIU was similar to the Electric Group thus indicating similar risk." He shows the five-year average operating ratios to be 76.7%, 76.8%, and 78.8% for UGIU, the Electric Group, and S&P Public Utilities respectively.[36]

Concerning interest coverage, Mr. Moul shows the five-year average pre-tax interest coverage to be 5.40x, 3.48x, and 3.22x for UGIU, the Electric Group, and S&P Public Utilities respectively. He admits that "the higher interest coverage for UGIU suggests lower credit risk."[37]

Regarding quality of earnings, Mr. Moul opines, "quality of earnings has not been a significant concern for UGIU and the Electric Group".[38]

With reference to internally generated funds (IGFs), Mr. Moul explains that the five-year average percentage of IGFs to construction expenditures was 74.8% for UGIU, 77.6% for the Electric Group, and 74.1% for the S&P Public Utilities, noting that this indicates comparable risk between the Company and the two reference groups.[39]

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35 UGI Electric Statement No. 5, p. 12, lines 4-14.
36 UGI Electric Statement No. 5, p. 13, lines 3-5.
37 UGI Electric Statement No. 5, p. 13, lines 10-12.
38 UGI Electric Statement No. 5, p. 13, lines 16-17.
39 UGI Electric Statement No. 5, p. 13, lines 18-23.

Finally, in his risk evaluation summary, Mr. Moul states, "On balance, the cost of equity for the Electric Group would fairly represent the Company's cost of equity for this case."[40] I believe that through his own analysis and testimony, Mr. Moul proves that the Company has very similar risk to that of his Electric Group, therefore, any additional consideration for the Company's risk profile is unnecessary.

COST OF EQUITY ADJUSTMENTS

INFLATED GROWTH RATES USED IN DCF ANALYSIS

Q. WHAT GROWTH RATE HAS MR. MOUL USED IN HIS DCF ANALYSIS?

A. Mr. Moul has chosen a growth rate of 5.25%.

Q. WHAT IS THE BASIS FOR MR. MOUL'S GROWTH RATE?

A. Mr. Moul states, "Schedule 9 shows the prospective five-year earnings per share growth rates projected for the Electric Group by IBES/First Call (4.33%), Zacks (4.80%), and Value Line (5.39%)."[41] Although the average of his sources for the growth rate is 4.84%,[42] Mr. Moul chooses to use 5.25% claiming that DCF growth rates should not be established by mathematical formulation and that the reasonableness of his chosen growth rate is justified by investor-expected growth for the Electric Group and continuation of electric utility infrastructure spending.[43]

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[40] UGI Electric Statement No. 5, p. 14, lines 15-17.
[41] UGI Electric Statement No. 5, p. 24, lines 12-13.
[42] (4.33% + 4.80% + 5.39%) ÷ 3 = 4.84%.
[43] UGI Electric Statement No. 5, p. 25, lines 7-11.

Q. DO YOU AGREE WITH MR. MOUL'S GROWTH RATE ANALYSIS?

A. No. Contrary to Mr. Moul's belief that DCF growth rates *should not* be established by mathematical formulation, I feel that any alternative would be subjective and introduce additional and unnecessary bias and should be avoided when possible. While I do agree with Mr. Moul's removal of negative growth rates as discussed in my own DCF analysis, the use of a higher growth rate than the average of his proxy group ignores the fact that analysts making earnings per share growth forecasts would already be aware of the economic conditions and the state of the electric utility industry. The reasons Mr. Moul has given for choosing 5.25% are factors that are already included in the earnings per share growth forecasts; thus, choosing a growth rate higher than the average of his proxy group would account for the same factors twice.

Q. DO YOU HAVE ANY ADDITIONAL COMMENTS REGARDING THE RESULTS OF MR. MOUL'S PROJECTED GROWTH RATES?

A. Yes. While the five-year projected growth rates can be used in analyses, one must be aware that analysts' estimates may be biased. This bias has been observed in literature. An article authored by Professors Ciciretti, Dwyer, and Hasan in 2009 observed strong support of earnings forecast being higher than actual earnings.[44] In spring of 2010, McKinsey On Finance presented an article reporting that after a

[44] Ciciretti, Rocco; Dwyer, Gerald R; and Iftekhan Hasan. "Investment Analysts' Forecasts of Earnings" Federal Reserve Bank of St. Louis *Review*, September/October 2009, 91 (5, part 2) pp. 545-67.

decade of stricter regulation analysts' forecasts are still overly optimistic.[45]

Analysts' estimates are an attempt to forecast future cash flows and thus expected earnings growth. However, it should be kept in mind that prudent judgment must be exercised as to the sustainability of forecasted growth rates with respect to the base earnings. If the base year earnings are abnormally high, the growth rates from which they are calculated will be biased downward. Similarly, if the base year earnings are abnormally low, the growth rates from which they are calculated will be biased upward. As a result, it is typically necessary to employ a methodology to smooth out the abnormally high or low base year earnings.

In summary, since analysts' projected growth forecasts are most often overly optimistic, there is no need to arbitrarily and non-formulaically increase the estimates used in a DCF analysis.

<u>LEVERAGE ADJUSTMENT APPLIED TO DCF ANALYSIS</u>

Q. HAS MR. MOUL MADE ANY ADDITIONAL ADJUSTMENTS TO THE RESULT OF HIS DCF ANALYSIS?

A. Yes. Mr. Moul proposes to make a 144-basis point "leverage" adjustment[46] to the results of his DCF analysis to account for applying a market valued cost of equity to a book value capital structure.[47]

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45 Goedhart, Marc J; Raj, Rishi; and Abhishek Saxena. "Equity analyst: Still too bullish" <u>McKinsey On Finance</u> Number 35 Spring 2010, pp. 14-17.

46 UGI Electric Exhibit B, Schedule 1, p. 2.

47 UGI Electric Statement No. 5, p. 29, lines 2-5.

Q. WHAT IS FINANCIAL LEVERAGE?

A. Financial leverage is the use of debt capital to supplement equity capital. A firm with significantly more debt than equity is considered to be highly leveraged.

Q. WHAT IS A MARKET-TO-BOOK (M/B) RATIO?

A. A market-to-book ratio is used to evaluate a public firm's equity value by comparing the market value and book value of a company's equity. One way of doing this is to divide the current price per share of stock by the book value per share. A M/B result of above one (1) is desired.

Q. IS MR. MOUL ADJUSTING THE RESULT OF HIS DCF ANALYSIS TO RECOGNIZE HOW THE COMPANY IS LEVERAGED?

A. No. Mr. Moul does not propose to change the capital structure of the utility (a leverage adjustment), nor does he propose to apply the market-to-book ratio to the DCF model (a market-to-book adjustment). Instead, Mr. Moul proposes to make an adjustment to account for applying the market value cost rate of equity to the book value of the utility's equity. I am not aware of any term in academic journals, textbooks, or other literature that describes this type of adjustment.

Q. WHAT IS THE BASIS FOR MR. MOUL'S PROPOSED LEVERAGE ADJUSTMENT?

A. Mr. Moul theorizes that in order to make the DCF results relevant to a book value capital structure, the market-derived cost of equity needs to be adjusted to take into consideration the difference in financial risk.[48] Mr. Moul believes this is because market valuations of equity are based on market value capital structures, which in general have more equity, less debt, and therefore, less risk than book value capital structures.[49]

Q. HOW DOES MR. MOUL CALCULATE THE LEVERAGE ADJUSTMENT USED IN HIS ANALYSIS?

A. Mr. Moul simply states:

> I know of no means to mathematically solve for the 1.44% leverage adjustment by expressing it in the terms of any particular relationship of market price to book value. The 1.44% adjustment is merely a convenient way to compare the 10.84% return computed using the Modigliani & Miller formulas to the 9.40% return generated by the DCF model based on a market-value capital structure.[50]

Q. DO YOU AGREE WITH MR. MOUL'S "LEVERAGE ADJUSTMENT?"

A. No. Mr. Moul's adjustment is inappropriate for a couple of reasons, including the characterization of financial risk and its inconsistency with Commission precedent.

Q. PLEASE EXPLAIN HOW RATING AGENCIES ASSESS FINANCIAL RISK.

A. Rating agencies assess financial risk based upon a company's booked debt obligations and the ability of its cash flow to cover the interest payments on those obligations. The agencies use a company's financial statements for their analysis, not market

48 UGI Electric Statement No. 5, p. 26, lines 5-7.
49 UGI Electric Statement No. 5, p. 25, ln. 22 through p. 26, ln. 3.
50 UGI Electric Statement No. 5, p. 28, lines 21-26.

capital structure. The income statement reflects the financial risk of a company because it represents the performance of the company over a certain period of time. A change in the market value of the stock is not reflected in the income statement nor is a change in market value capital structure reflected in the book value capital structure unless treasury stock is purchased. It is a company's financial statements that affect the market value of the stock and therefore the financial statements and the book value capital structure that is relied upon in an analysis such as that done by rating agencies.

Q. WHAT ARE THE MOST RECENT COMMISSION DECISIONS REGARDING A LEVERAGE ADJUSTMENT?

A. The following cases are the most recent instances where the Commission has addressed the use of a "leverage adjustment." In these cases, this adjustment has been rejected.

First, in *Pennsylvania Public Utility Commission v. Aqua Pennsylvania, Inc.*, at Docket No. R-00072711 (Order Entered July 31, 2008), p. 38, the Commission rejected the ALJ's recommendation for a leverage adjustment stating, "[t]he fact that we have granted leverage adjustments in the past does not mean that such adjustments are indicated in all cases."

Second, in *Pennsylvania Public Utility Commission, et al v. City of Lancaster – Bureau of Water*, at Docket No. R-2010-2179103 (Order Entered July 14, 2011), p. 79, the Commission agreed with the I&E position and stated, "any adjustment to the results of the market based DCF are unnecessary and will harm ratepayers.

Consistent with our determination in *Aqua 2008* there is no need to add a leverage adjustment."

Third, in *Pennsylvania Public Utility Commission, et al v. UGI Utilities, Inc. – Electric Division*, at Docket No. R-2017-2640058 (Order Entered October 25, 2018), pp. 93-94, the Commission agreed with the I&E position and stated, "we conclude that an artificial adjustment in this proceeding is unnecessary and contrary to the public interest. Accordingly, we decline to include a leverage adjustment in our calculation of the DCF cost of equity."

Finally, in the most recent case of *Pennsylvania Public Utility Commission, et. al v. Columbia Gas of Pennsylvania, Inc.*, at Docket R-2020-3018835 (Order Entered February 19, 2021), pp. 137-141, the Commission adopted the ALJ's recommendation to use I&E's DCF methodology, which excludes the use of a leverage adjustment.

Q. BASED ON THE COMPANY'S FILED RATE BASE AND CLAIMED CAPITAL STRUCTURE, WHAT IS THE VALUE OF AN ADDITIONAL 144 BASIS POINTS FOR THE LEVERAGE ADJUSTMENT TO THE COST OF EQUITY?

A. The example below illustrates the impact of 144 additional basis points for the leverage adjustment to the Company's cost of equity:

UGI – Electric Division

Claimed Equity Percentage of Capital Structure	51.20%
Additional Basis Points to Calculated Cost of Equity	144
Claimed Rate Base*	$131,831,000
Total Impact	**$971,964**

(0.5120 x 0.0144 x $131,831,000)

*(UGI Electric Exhibit A – Fully Projected, Schedule A-1)

In this example, an addition of 144 basis points for the leverage adjustment to the cost of equity would force ratepayers to fund an unwarranted additional amount of $971,964.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATION REGARDING THE LEVERAGE ADJUSTMENT.

A. I recommend that Mr. Moul’s proposed 144-basis point leverage adjustment be rejected because true financial risk is a function of the amount of interest expense, and capital structure information provided to investors through Value Line is that of book values, not market values. This demonstrates that investors base their decisions on book value debt and equity ratios for the regulated utilities, therefore, no adjustment is needed. Mr. Moul’s proposed adjustment serves only to manipulate the DCF’s market-based methodology.

Q. DO YOU HAVE ANY FURTHER COMMENTS REGARDING MR. MOUL'S DCF CALCULATION?

A. Yes. While I am not directly disputing Mr. Moul's adjusted dividend yields, it is important to recognize, that as cited above, the Commission has recently agreed with I&E's DCF methodology which includes the appropriate calculation of dividend yields. Although it is acceptable to adjust historical dividend yields as Mr. Moul has done, it is preferable to use forecasted dividends to calculate the dividend yields when available, such as the ones Value Line offers and I have employed.

Q. WHAT WOULD MR. MOUL'S DCF BE WITHOUT ANY ADJUSTMENTS?

A. Without Mr. Moul's use of inflated growth rates and a leverage adjustment, his DCF would consist of a dividend yield of 4.15% and an average growth rate of 4.84%, which results in an 8.99% cost of equity. While this result is higher than my DCF result of 8.58%, it is much more reasonable than his originally calculated and inappropriately inflated result of 10.84%.

RISK-FREE RATE OF RETURN

Q. HOW HAS MR. MOUL CALCULATED HIS RISK-FREE RATE FOR USE IN HIS CAPM MODEL?

A. Mr. Moul's calculation of his risk-free rate is similar to mine. He considered Treasury yield estimates published by Blue Chip Financial Forecasts over the next six quarters, from the time of his analysis, as well as long-range, five-year averages. However, he used the 30-year Treasury Bond while I employed the 10-year Treasury

Note. Also, where I used a long-range, five-year average, future data point accounting for years 2022-2026 predictions, Mr. Moul used two future data points accounting for not only years 2022-2026, but also included an estimate for years 2027-2031. His calculation resulted in a 2.00% risk-free rate as opposed to the 1.43% I used.[51]

Q. DO YOU AGREE WITH MR. MOUL'S CALCULATION OF THE RISK-FREE RATE?

A. No. First, as stated earlier, long-term Treasury Bonds have substantial maturity risk associated with the market risk and the risk of unexpected inflation and normally offer higher yields to compensate investors for these risks. Using the 10-year Treasury Note is more appropriate to balance the short-term volatility risk and the long-term inflation risk.

Next, the further out into the future one projects, the less reliable the information becomes. Using the projection for 2027-2031 is an unreliable measure and this should not be included in the risk-free rate. The Companies' FPFTY ends September 30, 2022, and in my opinion using an estimated risk-free rate that is five to nine years beyond the FPFTY is unreasonable and unnecessary.

Additionally, in UGI Electric's last base rate proceeding, the Commission has recognized the 10-year Treasury Note as the superior measure for the risk-free rate by

[51] UGI Electric Statement No. 5, p. 36, lines 17-24 and UGI Electric Exhibit B, Schedule 13, p. 2.

stating the following: [52]

> We agree with I&E and the ALJs that using the yield on the 10-year Treasury Note provides a better measure of the risk-free rate of return than using the yield on the 30-year Treasury Bond, as recommended by UGI. In our view, using the 10-year Treasury Note balances the shortcomings of the short-term T-Bill and the 30-year Treasury Bond. Although long-term Treasury Bonds have less risk of being influenced by federal policies, they have substantial maturity risk associated with the market risk. In addition, long-term Treasury Bonds bear the risk of unexpected inflation.

Finally, if Mr. Moul used the 10-year Treasury Note as the Commission prefers, and excluded the data from years 2027-2031, his risk-free rate would be 1.14% ((0.8% + 0.8% + 0.9% + 1.0% + 1.1% + 1.1% + 2.3%)[53] ÷ 7), assuming he weighed all data points equally. This result is lower than my 1.43% calculated risk-free rate, largely because I used more recent estimates.

INFLATED BETAS USED IN CAPM ANALYSIS

Q. HOW HAS MR. MOUL INFLATED THE BETAS EMPLOYED IN HIS CAPM ANALYSIS?

A. Mr. Moul has used the same logic for inflating his CAPM betas from 0.88 to 1.08 that he used to enhance his DCF returns, through a financial risk or "leverage" adjustment.[54]

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[52] *Pa. PUC v. UGI Utilities, Inc. – Electric Division;* Docket No. R-2017-2640058 (Order entered October 25, 2018), p. 99. (Disposition of Capital Asset Pricing Model (CAPM)).

[53] UGI Electric Exhibit B, Schedule 13, p. 2.

[54] UGI Electric Statement No. 5, p. 34, lines 1-21.

Q. DO YOU AGREE WITH MR. MOUL'S USE OF ADJUSTED BETAS?

A. No. Such enhancements are unwarranted for beta in a CAPM analysis for the same reasons that the "leverage" adjustment is unwarranted for DCF results.

Additionally, if the unadjusted *Value Line* betas do not reflect an accurate investment risk as Mr. Moul contends, the question naturally arises as to why *Value Line* does not publish betas that are adjusted for leverage. Until this type of adjustment is demonstrated in the academic literature to be valid, such leverage adjusted betas in a CAPM model should be rejected.

Finally, as described in my CAPM analysis above, a stock with a price movement that is greater than the overall stock market will have a beta that is greater than one and would be described as having more investment risk than the market. Due to being regulated and the monopolistic nature of utilities, rarely do they have a beta greater than one. Therefore, to apply an adjusted beta of 1.08, in this case, to the entire industry or electric proxy group is irrational.

SIZE ADJUSTMENT APPLIED TO CAPM ANALYSIS

Q. WHAT IS MR. MOUL'S SIZE ADJUSTMENT?

A. Mr. Moul adds 102 basis points to his CAPM indicated cost of common equity because he believes that as the size of a firm decreases, its risk and required return increases.[55] Mr. Moul relies upon technical literature including Morningstar's Stocks, Bonds, Bills, and Inflation Yearbook, a Fama and French study entitled "The Cross-

[55] UGI Electric Statement No. 5, p. 37, lines 18-19.

Section of Expected Stock Returns," and an article published in Public Utilities Fortnightly entitled "Equity and the Small-Stock Effect."[56]

Q. EXPLAIN WHY MR. MOUL'S SIZE ADJUSTMENT IS UNNECESSARY?

A. Mr. Moul's size adjustment is unnecessary because the technical literature he cites supporting investment adjustments relating to the size of a company is not specific to the utility industry, and therefore, has no relevance in this proceeding.

Q. IS THERE ACADEMIC EVIDENCE THAT SUPPORTS YOUR CONCLUSION THAT THE SIZE ADJUSTMENT FOR RISK IS NOT APPLICABLE TO UTILITY COMPANIES?

A. Yes. In the article "Utility Stocks and the Size Effect: An Empirical Analysis," Dr. Annie Wong concludes:

> The objective of this study is to examine if the size effect exists in the utility industry. After controlling for equity values, there is some weak evidence that firm size is a missing factor from the CAPM for the industrial but not for utility stocks. This implies that although the size phenomenon has been strongly documented for the industriales, the findings suggest that there is no need to adjust for the firm size in utility rate regulation.[57]

UGI Electric presents no evidence to support application of a non-utility study regarding a size adjustment for risk to a utility setting. Absent any credible article to

[56] UGI Electric Statement No. 5, p. 37, ln. 21 through p. 38 ln. 1.
[57] Dr. Annie Wong, "Utility Stocks and the Size Effect: An Empirical Analysis," *Journal of Midwest Finance Association* 1993, pp. 95-101.

refute Dr. Wong's findings, Mr. Moul's size adjustment to his CAPM results should be rejected.

Additionally, the Commission rejected the application of a size adjustment to the CAPM cost of equity calculation in UGI Electric's last base rate proceeding, where it agreed that the literature the Company cites is not specific to the utility industry.[58]

Q. WHAT WOULD MR. MOUL'S CAPM RESULT BE USING YOUR CALCULATED 10-YEAR TREASURY NOTE FOR HIS RISK-FREE RATE AND WITHOUT HIS SIZE ADJUSTMENT AND INFLATED BETAS?

A. Mr. Moul's CAPM result would be 11.32% using my 10-Year Treasury Note for his risk-free rate and excluding his size adjustment and inflated betas. This is 354 basis points lower than his originally calculated 14.86% result. The calculation is repeated below without Mr. Moul's adjustments:

Rf	+	ß	*	(Rm-Rf)	+	size	=	K
1.43%	+	0.88	*	11.24%	+	0.00%	=	11.32%

58 *Pa. PUC v. UGI Utilities, Inc. – Electric Division;* Docket No. R-2017-2640058 (Order Entered October 25, 2018), p. 100 (Disposition of Cost of Common Equity).

<u>OVERALL RATE OF RETURN RECOMMENDATION</u>

Q. WHAT IS THE COMPANY'S PROPOSED COST OF EQUITY AND OVERALL RATE OF RETURN?

A. The Company recommends a cost of equity of 10.75% and an overall rate of return of 7.57%.

Q. WHAT IS I&E'S RECOMMENDED COST OF EQUITY AND OVERALL RATE OF RETURN?

A. I&E Exhibit No. 1, Schedule 1, shows the calculation of an appropriate cost of equity to be 8.58% with an overall rate of return for the Company to be 6.46%.

Q. DO YOU HAVE ANY FINAL COMMENTS REGARDING THE COMPANY'S PROPOSED COST OF EQUITY AND OVERALL RATE OF RETURN?

A. Yes. I believe my recommended, market determined cost of equity is fair, particularly considering the financial impacts COVID-19 has had on utilities, ratepayers, and the economy as a whole. While investors typically view utilities as safe investments due to the regulation which all but guarantees covering the costs of doing business and the steady and secure revenues due to having a captive customer base, high profits are not and should not be guaranteed, especially in a volatile economic environment. It is important to recognize, that any investment comes with some level of risk. Therefore, I believe it is unreasonable for UGI Electric's investors to be entirely insulated from the impacts of COVID-19 while putting the entire burden on ratepayers. Although many ratepayers are feeling financial pressure from the pandemic, the Company is asking for a return on equity well above the industry norm. When asked, Mr. Moul indicated he was unaware if any electric distribution utilities throughout the United States were granted a Commission authorized return of 10.75% or higher cost of common equity in the past two years.[59] In fact, after a review of past rate cases from 2017-2020 posted by S&P Global, I was unable to identify a single natural gas or electric distribution utility that was authorized a return on equity equal to or greater than what UGI Electric is requesting in this proceeding. Additionally, as explained above, the *Hope* and *Bluefield* cases set forth the principle that a fair return can change (increase or decrease) along with economic conditions and capital markets. Therefore, as unfortunate as this situation is for all involved, I believe it is necessary and fair that both the investors and the ratepayers share in the economic burdens created by the pandemic.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

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[59] I&E Exhibit No. 2, Schedule 13.

ANTHONY D. SPADACCIO, CRRA

PROFESSIONAL EXPERIENCE AND EDUCATION

EMPLOYMENT

Fixed Utility Financial Analyst 2014 – Present	PA Public Utility Commission Bureau of Investigation & Enforcement
Auditor 2012 – 2014	Public School Employee's Retirement System Bureau of Benefits Administration
Tax Technician 2010 – 2012	PA Department of Labor and Industry Unemployment Compensation Tax Services
Staff Accountant 2006 – 2009	Boyer & Ritter Certified Public Accountants

EDUCATION & TRAINING

EDUCATION/CERTIFICATIONS:

Society of Utility and Regulatory Financial Analysts (SURFA) – 2018
Certified Rate of Return Analyst (CRRA)

Indiana University of Pennsylvania, A.A. Accounting - 2006

The Pennsylvania State University, B.S. Labor and Industrial Relations – 2003

The Pennsylvania State University - The Smeal College of Business - 2003
Certificates of Completion:
Business Management - 20 credits of instruction
General Business - 20 credits of instruction

UTILITY SPECIFIC TRAINING/CONFERENCES:

SURFA Annual Financial Forum – New Orleans, LA – 2018

SURFA Annual Financial Forum – Indianapolis, IN - 2016

Western NARUC Utility Rate School – San Diego, CA - 2015

Pennsylvania Public Utility Commission Rate School – Harrisburg, PA – 2014

EXPERIENCE

I have submitted testimony or provided assistance in the following proceedings:

- Docket No. R-2020-3022135 – Pike County Light & Power Company (Electric)*
- Docket No. R-2020-3022135 – Pike County Light & Power Company (Gas)*
- Docket No. R-2020-3020919 – Audubon Water Company*
- Docket No. R-2020-3020256 – City of Bethlehem – Bureau of Water*
- Docket Nos. R-2020-3019369 & R-2020-3019371 – Pennsylvania-American Water Company*
- Docket Nos. R-2020-3017951, R-2020-3017970, & P-2020-3019019 – Pittsburgh Water & Sewer Authority*
- Docket No. R-2020-3017206 – Philadelphia Gas Works*
- Docket No. R-2020-3017850 – Peoples Natural Gas Company, LLC 1307(f)*
- Docket No. R-2020-3017846 – Peoples Gas Company, LLC 1307(f)*
- Docket No. R-2019-3010955 – City of Lancaster – Sewer Fund*
- Docket No. R-2019-3008208 – Wellsboro Electric Company*
- Docket No. R-2019-3008212 – Citizens' Electric Company of Lewisburg, PA*
- Docket No. R-2019-3008948 – Community Utilities of PA, Inc. – Wastewater Division*
- Docket No. R-2019-3008947 – Community Utilities of PA, Inc. – Water Division*
- Docket No. A-2019-3006880 – Pennsylvania-American Water Company – Acquisition of the Water Treatment and Distribution System Assets of Steelton Borough Authority (§1329)*
- Docket No. R-2018-3006814 – UGI Utilities, Inc. – Gas Division*
- Docket Nos. M-2018-2640802 & M-2018-2640803 – Pittsburgh Water & Sewer Authority (Compliance Plan)*
- Docket Nos. R-2018-3002645 & R-2018-3002647 – Pittsburgh Water & Sewer Authority*
- Docket Nos. A-2018-3003517 & A-2018-3003519 – SUEZ Water Pennsylvania, Inc. - Acquisition of the Water and Wastewater Assets of Mahoning Township (§1329)*
- Docket No. R-2018-3000124 – Duquesne Light Company*
- Docket No. R-2018-3000164 – PECO Energy Company – Electric Division*
- Docket No. R-2018-2645296 – Peoples Gas Company LLC 1307(f)*

- Docket No. R-2018-3000236 – Peoples Natural Gas – Equitable Division 1307(f)*
- Docket No. R-2018-2645278 – Peoples Natural Gas Company, LLC 1307(f)*
- Docket No. R-2017-2640058 – UGI Utilities, Inc. – Electric Division*
- Docket No. R-2017-2595853 – Pennsylvania-American Water Company*
- Docket No. A-2017-2606103 – Pennsylvania-American Water Company – Acquisition of Assets of the Municipal Authority of the City of McKeesport (§1329)*
- Docket No. A-2016-2580061 – Aqua PA Wastewater, Inc. – Acquisition of the Wastewater System Assets of New Garden Township and the New Garden Township Sewer Authority (§1329)
- Docket No. R-2016-2531551 – Wellsboro Electric Company*
- Docket No. R-2016-2531550 – Citizens' Electric Company of Lewisburg, PA*
- Docket No. R-2016-2542923 – PNG, LLC – Equitable Division (Rate MLX)*
- Docket No. R-2016-2542918 – Peoples Natural Gas Company, LLC (Rate MLX)*
- Docket No. P-2016-2543140 – Duquesne Light Company (DSP VIII)*
- Docket No. R-2016-2529660 – Columbia Gas of PA, Inc.*
- Docket No. R-2016-2538660 – Community Utilities of PA, Inc.
- Docket No. P-2016-2521993 – Columbia Gas of PA, Inc. (DSIC)*
- Docket No. R-2015-2506337 – Twin Lakes Utilities, Inc.
- Docket No. R-2015-2479955 – Allied Utility Services, Inc.
- Docket No. R-2015-2479962 – Corner Water Supply & Service Corp.
- Docket No. R-2015-2470184 – Borough of Schuylkill Haven – Water Dept.
- Docket No. R-2014-2452705 – Delaware Sewer Company*
- Docket No. R-2014-2430945 – Plumer Water Company
- Docket No. R-2014-2427189 – B.E. Rhodes Sewer Company
- Docket No. R-2014-2427035 – Venango Water Company
- Docket No. R-2014-2428745 – Metropolitan Edison Company
- Docket No. R-2014-2428744 – Pennsylvania Power Company
- Docket No. R-2014-2428743 – Pennsylvania Electric Company
- Docket No. R-2014-2428742 – West Penn Power Company

*Testimony Submitted

I&E Exhibit No. 2
Witness: Anthony Spadaccio

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

UGI UTILITIES, INC. – ELECTRIC DIVISION

Docket No. R-2021-3023618

Exhibit to Accompany

the

Direct Testimony

of

Anthony Spadaccio, CRRA

Bureau of Investigation & Enforcement

Concerning:

Rate of Return

I&E Exhibit No. 2
Schedule 1

I&E
Summary of Cost of Capital

Type of Capital	Ratio	Cost Rate	Weighted Cost
	UGI Electric		
Long-Term Debt	48.80%	4.25%	2.07%
Common Equity	51.20%	8.58%	4.39%
Total	100.00%		6.46%

I&E Exhibit No. 2
Schedule 2

Proxy Group Capital Structure

	2019		2018		2017		2016		2015		Average
Ameren Corp											
Long-term Debt	$ 8,944.000	52.60%	$ 7,859.000	50.74%	$ 7,094.000	49.68%	$ 6,595.000	48.15%	$ 6,880.000	49.76%	50.19%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	8,059.000	47.40%	7,631.000	49.26%	7,184.000	50.32%	7,103.000	51.85%	6,946.000	50.24%	49.81%
	17,003.000	100.00%	15,490.000	100.00%	14,278.000	100.00%	13,698.000	100.00%	13,826.000	100.00%	100.00%
American Electric Power Company Inc.											
Long-term Debt	26,110.600	57.03%	21,881.700	53.44%	19,658.400	51.79%	17,620.500	50.32%	17,988.200	50.13%	52.54%
Preferred Stock	42.900	0.09%	39.400	0.10%	11.900	0.03%	-	0.00%	-	0.00%	0.04%
Common Equity	19,632.200	42.88%	19,028.400	46.47%	18,287.000	48.18%	17,397.000	49.68%	17,891.700	49.87%	47.41%
	45,785.700	100.00%	40,949.500	100.00%	37,957.300	100.00%	35,017.500	100.00%	35,879.900	100.00%	100.00%
CMS Energy Corp											
Long-term Debt	12,064.000	70.62%	10,684.000	69.20%	9,214.000	67.48%	8,750.000	67.29%	8,559.000	68.49%	68.62%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	5,018.000	29.38%	4,755.000	30.80%	4,441.000	32.52%	4,253.000	32.71%	3,938.000	31.51%	31.38%
	17,082.000	100.00%	15,439.000	100.00%	13,655.000	100.00%	13,003.000	100.00%	12,497.000	100.00%	100.00%
Consolidated Edison Inc.											
Long-term Debt	19,336.000	51.76%	17,495.000	51.12%	14,731.000	48.86%	14,735.000	50.75%	12,006.000	47.91%	50.08%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	18,022.000	48.24%	16,726.000	48.88%	15,418.000	51.14%	14,298.000	49.25%	13,052.000	52.09%	49.92%
	37,358.000	100.00%	34,221.000	100.00%	30,149.000	100.00%	29,033.000	100.00%	25,058.000	100.00%	100.00%
Dominion Energy											
Long-term Debt	34,266.000	51.71%	31,144.000	60.77%	30,948.000	64.35%	30,231.000	67.43%	23,616.000	65.09%	61.87%
Preferred Stock	2,387.000	3.60%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.72%
Common Equity	29,607.000	44.68%	20,107.000	39.23%	17,142.000	35.65%	14,605.000	32.57%	12,664.000	34.91%	37.41%
	66,260.000	100.00%	51,251.000	100.00%	48,090.000	100.00%	44,836.000	100.00%	36,280.000	100.00%	100.00%
Duke Energy Corp New											
Long-term Debt	56,417.000	54.65%	51,123.000	53.85%	49,035.000	54.02%	45,576.000	52.62%	37,495.000	48.55%	52.74%
Preferred Stock	1,962.000	1.90%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.38%
Common Equity	44,860.000	43.45%	43,817.000	46.15%	41,739.000	45.98%	41,033.000	47.38%	39,727.000	51.45%	46.88%
	103,239.000	100.00%	94,940.000	100.00%	90,774.000	100.00%	86,609.000	100.00%	77,222.000	100.00%	100.00%
Entergy Corp.											
Long-term Debt	17,313.378	62.87%	15,538.681	63.73%	14,337.274	64.21%	14,492.237	64.20%	13,138.557	58.67%	62.73%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	10,223.675	37.13%	8,844.305	36.27%	7,992.515	35.79%	8,081.809	35.80%	9,256.791	41.33%	37.27%
	27,537.053	100.00%	24,382.986	100.00%	22,329.789	100.00%	22,574.046	100.00%	22,395.348	100.00%	100.00%
Eversource Energy											
Long-term Debt	14,360.350	53.21%	12,832.074	52.77%	11,775.889	51.51%	8,829.354	45.18%	8,805.574	45.96%	49.73%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	12,629.994	46.79%	11,486.817	47.23%	11,086.242	48.49%	10,711.734	54.82%	10,352.215	54.04%	50.27%
	26,990.344	100.00%	24,318.891	100.00%	22,862.131	100.00%	19,541.088	100.00%	19,157.789	100.00%	100.00%
FirstEnergy Corp.											
Long-term Debt	19,859.000	74.01%	17,751.000	72.26%	21,115.000	84.33%	18,192.000	74.46%	19,192.000	60.71%	73.15%
Preferred Stock	-	0.00%	71.000	0.29%	-	0.00%	-	0.00%	-	0.00%	0.06%
Common Equity	6,975.000	25.99%	6,743.000	27.45%	3,925.000	15.67%	6,241.000	25.54%	12,421.000	39.29%	26.79%
	26,834.000	100.00%	24,565.000	100.00%	25,040.000	100.00%	24,433.000	100.00%	31,613.000	100.00%	100.00%
IDACORP Inc.											
Long-term Debt	1,736.659	41.34%	1,834.788	43.63%	1,746.123	43.68%	1,744.614	44.75%	1,725.410	45.61%	43.80%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	2,464.628	58.66%	2,370.360	56.37%	2,251.385	56.32%	2,153.906	55.25%	2,057.884	54.39%	56.20%
	4,201.287	100.00%	4,205.148	100.00%	3,997.508	100.00%	3,898.520	100.00%	3,783.294	100.00%	100.00%
NorthWestern Corporation											
Long-term Debt	2,253.023	52.49%	2,122.260	52.21%	1,815.629	50.23%	1,817.684	52.02%	1,808.453	53.06%	52.00%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	2,039.094	47.51%	1,942.382	47.79%	1,798.915	49.77%	1,676.227	47.98%	1,600.174	46.94%	48.00%
	4,292.117	100.00%	4,064.642	100.00%	3,614.544	100.00%	3,493.911	100.00%	3,408.627	100.00%	100.00%
Portland General Electric Company											
Long-term Debt	2,775.000	51.71%	2,225.000	47.03%	2,475.000	50.60%	2,200.000	48.42%	2,071.000	47.84%	49.12%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	2,591.000	48.29%	2,506.000	52.97%	2,416.000	49.40%	2,344.000	51.58%	2,258.000	52.16%	50.88%
	5,366.000	100.00%	4,731.000	100.00%	4,891.000	100.00%	4,544.000	100.00%	4,329.000	100.00%	100.00%
PPL Corporation											
Long-term Debt	20,799.000	61.55%	20,069.000	63.26%	19,847.000	64.84%	17,808.000	64.27%	18,563.000	65.17%	63.82%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	12,991.000	38.45%	11,657.000	36.74%	10,761.000	35.16%	9,899.000	35.73%	9,919.000	34.83%	36.18%
	33,790.000	100.00%	31,726.000	100.00%	30,608.000	100.00%	27,707.000	100.00%	28,482.000	100.00%	100.00%
Public Service Enterprise Group Inc.											
Long-term Debt	14,016.000	48.16%	13,168.000	47.81%	12,068.000	46.57%	10,895.000	45.35%	8,834.000	40.34%	45.64%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	15,089.000	51.84%	14,377.000	52.19%	13,847.000	53.43%	13,130.000	54.65%	13,066.000	59.66%	54.36%
	$ 29,105.000	100.00%	$ 27,545.000	100.00%	$ 25,915.000	100.00%	$ 24,025.000	100.00%	$ 21,900.000	100.00%	100.00%
Xcel Energy Inc.											
Long-term Debt	19,033.000	58.98%	15,803.000	56.39%	14,520.000	55.90%	14,194.718	56.29%	12,490.719	54.09%	56.33%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	13,239.000	41.02%	12,222.000	43.61%	11,455.000	44.10%	11,020.849	43.71%	10,600.920	45.91%	43.67%
	$ 32,272.000	100.00%	$ 28,025.000	100.00%	$ 25,975.000	100.00%	$ 25,215.567	100.00%	$ 23,091.639	100.00%	100.00%

Five-Year Average Capital Structure	
Long-term Debt	55.49%
Preferred Stock	0.08%
Common Equity	44.43%
	100.00%

Source: Compustat (data in millions)

I&E Exhibit No. 2
Schedule 3

	2019		
	Interest Charges	**Long-Term Debt**	**Debt Cost**
Ameren Corp	$ 401.00	$ 8,944.00	4.48%
American Electric Power Company Inc.	$ 1,161.20	$ 26,110.60	4.45%
CMS Energy Corp	$ 523.00	$ 12,064.00	4.34%
Consolidated Edison Inc.	$ 1,004.00	$ 19,336.00	5.19%
Dominion Energy	$ 1,862.00	$ 34,266.00	5.43%
Duke Energy Corp New	$ 2,363.00	$ 56,417.00	4.19%
Entergy Corp.	$ 807.38	$ 17,313.38	4.66%
Eversource Energy	$ 558.80	$ 14,360.35	3.89%
FirstEnergy Corp.	$ 1,033.00	$ 19,859.00	5.20%
IDACORP Inc.	$ 97.18	$ 1,736.66	5.60%
NorthWestern Corporation	$ 97.50	$ 2,253.02	4.33%
Portland General Electric Company	$ 133.00	$ 2,775.00	4.79%
PPL Corporation	$ 994.00	$ 20,799.00	4.78%
Public Service Enterprise Group Inc.	$ 569.00	$ 14,016.00	4.06%
Xcel Energy Inc.	$ 773.00	$ 19,033.00	4.06%
	Range:	Low	3.89%
		High	5.60%
		Average	4.63%

Source: Compustat

I&E Exhibit No. 2
Schedule 4

Dividend Yields of the Proxy Group

Company Symbol	Ameren Corp AEE	American Electric Power Company Inc. AEP	CMS Energy Corp CMS	Consolidated Edison Inc. ED	Dominion Energy D
Div	2.09	3.00	1.74	3.10	2.52
52-wk low	58.74	65.14	46.03	62.03	57.79
52-wk high	87.66	104.63	69.17	94.65	90.89
Spot Price	72.56	78.95	56.58	71.82	73.06
Spot Div Yield	2.88%	3.80%	3.08%	4.32%	3.45%
52-wk Div Yield	2.86%	3.53%	3.02%	3.96%	3.39%
Average	2.87%	3.67%	3.05%	4.14%	3.42%

Company Symbol	Duke Energy Corp New DUK	Entergy Corp. ETR	Eversource Energy ES	FirstEnergy Corp. FE	IDACORP Inc. IDA
Div	3.90	3.86	2.40	1.56	2.89
52-wk low	62.13	75.20	60.69	22.85	69.05
52-wk high	103.79	135.55	99.42	52.52	113.58
Spot Price	90.42	94.64	86.23	31.12	86.42
Spot Div Yield	4.31%	4.08%	2.78%	5.01%	3.34%
52-wk Div Yield	4.70%	3.66%	3.00%	4.14%	3.16%
Average	4.51%	3.87%	2.89%	4.58%	3.25%

Company Symbol	NorthWestern Corporation NWE	Portland General Electric Company POR	PPL Corporation PPL	Public Service Enterprise Group Inc. PEG	Xcel Energy Inc. XEL
Div	2.48	1.68	1.67	2.04	1.82
52-wk low	45.06	31.96	18.12	34.75	46.58
52-wk high	80.52	63.08	36.41	62.15	76.44
Spot Price	57.47	42.45	27.94	58.57	61.57
Spot Div Yield	4.32%	3.96%	5.98%	3.48%	2.96%
52-wk Div Yield	3.95%	3.54%	6.13%	4.21%	2.96%
Average	4.13%	3.75%	6.05%	3.85%	2.96%

	Average
Spot Div Yield	**3.85%**
52-wk Div Yield	**3.75%**
Average	**3.80%**

Source: Barrons February 12, 2021
Value Line December 11, 2020 / January 22, 2021 / February 12, 2021

Five-Year Growth Estimate Forecast for the Proxy Group (Actual)

Company	Symbol	Yahoo	Zacks	Morningstar	Value Line	Average
				Source		
Ameren Corp	AEE	6.60%	6.80%	7.50%	6.00%	6.73%
American Electric Power Company Inc.	AEP	6.00%	5.80%	6.50%	6.00%	6.08%
CMS Energy Corp	CMS	7.26%	6.90%	7.20%	7.50%	7.22%
Consolidated Edison Inc.	ED	1.77%	2.00%	2.50%	2.50%	2.19%
Dominion Energy	D	-0.93%	5.00%	0.70%	7.00%	2.94%
Duke Energy Corp New	DUK	3.13%	4.90%	3.70%	5.00%	4.18%
Entergy Corp.	ETR	5.20%	5.20%	4.10%	3.00%	4.38%
Eversource Energy	ES	6.51%	6.50%	6.90%	6.50%	6.60%
FirstEnergy Corp.	FE	-6.60%	NA	3.90%	8.50%	1.93%
IDACORP Inc.	IDA	2.60%	2.60%	NA	4.50%	3.23%
NorthWestern Corporation	NWE	3.20%	3.70%	NA	2.50%	3.13%
Portland General Electric Company	POR	5.50%	5.50%	6.00%	4.00%	5.25%
PPL Corporation	PPL	-16.20%	NA	-0.30%	2.50%	-4.67%
Public Service Enterprise Group Inc.	PEG	3.00%	3.00%	3.80%	5.00%	3.70%
Xcel Energy Inc.	XEL	6.20%	6.10%	6.10%	6.00%	6.10%
Average:						3.93%

Source:
Internet
February 12, 2021

Five-Year Growth Estimate Forecast for the Proxy Group (Actual)

Company	Symbol	Yahoo	Zacks	Morningstar	Value Line	Average
				Source		
Ameren Corp	AEE	6.60%	6.80%	7.50%	6.00%	6.73%
American Electric Power Company Inc.	AEP	6.00%	5.80%	6.50%	6.00%	6.08%
CMS Energy Corp	CMS	7.26%	6.90%	7.20%	7.50%	7.22%
Consolidated Edison Inc.	ED	1.77%	2.00%	2.50%	2.50%	2.19%
Dominion Energy	D	NA	5.00%	0.70%	7.00%	4.23%
Duke Energy Corp New	DUK	3.13%	4.90%	3.70%	5.00%	4.18%
Entergy Corp.	ETR	5.20%	5.20%	4.10%	3.00%	4.38%
Eversource Energy	ES	6.51%	6.50%	6.90%	6.50%	6.60%
FirstEnergy Corp.	FE	NA	NA	3.90%	8.50%	6.20%
IDACORP Inc.	IDA	2.60%	2.60%	NA	4.50%	3.23%
NorthWestern Corporation	NWE	3.20%	3.70%	NA	2.50%	3.13%
Portland General Electric Company	POR	5.50%	5.50%	6.00%	4.00%	5.25%
PPL Corporation	PPL	NA	NA	NA	2.50%	2.50%
Public Service Enterprise Group Inc.	PEG	3.00%	3.00%	3.80%	5.00%	3.70%
Xcel Energy Inc.	XEL	6.20%	6.10%	6.10%	6.00%	6.10%
Average:						4.78%

I&E Exhibit No. 2
Schedule 6

Expected Market Cost Rate of Equity

Using Data for the Proxy Group of Electric Companies
5-Year Forecasted Growth Rates

	Time Period	Adjusted Dividend Yield	Growth Rate	Expected Return on Equity
		(1)	(2)	(3=1+2)
(1)	52-Week Average Ending: February 12, 2021	3.75%	4.78%	8.53%
(2)	Spot Price Ending: February 12, 2021	3.85%	4.78%	8.63%
(3)	Average:	3.80%	4.78%	8.58%

Sources: Value Line December 11, 2020 / January 22, 2021 / February 12, 2021
Barrons February 12, 2021

I&E Exhibit No. 2
Schedule 7

Company	Beta
Ameren Corp	0.85
American Electric Power Company Inc.	0.75
CMS Energy Corp	0.80
Consolidated Edison Inc.	0.75
Dominion Energy	0.80
Duke Energy Corp New	0.85
Entergy Corp.	0.95
Eversource Energy	0.90
FirstEnergy Corp.	0.85
IDACORP Inc.	0.80
NorthWestern Corporation	0.95
Portland General Electric Company	0.85
PPL Corporation	1.10
Public Service Enterprise Group Inc.	0.90
Xcel Energy Inc.	0.80
Average beta for CAPM	0.86

Source:
Value Line
December 11, 2020 / January 22, 2021 / February 12, 2021

I&E Exhibit No. 2
Schedule 8

Risk-Free Rate

10-Year Treasury Note	Yield
2Q 2021	1.20
3Q 2021	1.20
4Q 2021	1.30
1Q 2022	1.40
2Q 2022	1.50
2022-2026	2.00
Average	1.43

Source:
Blue Chip
December 1, 2020 & February 3, 2021

I&E Exhibit No. 2
Schedule 9

Required Rate of Return on Market as a Whole Forecasted

	Dividend Yield	+	Growth Rate	=	Expected Market Return
Value Line Estimate	2.00%		7.79%	(a)	9.79%
S&P 500	1.58%	(b)	10.80%		12.38%
Average Expected Market Return				=	11.09%

(a) ((1+35%)^25%) -1) Value Line forecast for the 3 to 5 year index appreciation is 35%
(b) S&P 500 multiplied by half the growth rate

Sources:

Value Line	2/12/2021
S&P 500 Dividend Yield (Barrons)	2/5/2021
S&P 500 Growth Rate (Yahoo!)	2/12/2021

I&E Exhibit No. 2
Schedule 10

CAPM with forecasted return

Re	Required return on individual equity security
Rf	Risk-free rate
Rm	Required return on the market as a whole
Be	Beta on individual equity security

Re = Rf+Be(Rm-Rf)

Rf =	1.43
Rm =	11.09
Be =	0.86
Re =	**9.73**

Sources:	Value Line	December 11, 2020 / January 22, 2021 / February 12, 2021
	Blue Chip	December 1, 2020 & February 3, 2021

I&E-RR-5-D

Request:

Reference UGI Electric Statement No. 5, page 7, lines 6-10. List the companies in Mr. Moul's Electric Group that are also susceptible to bypass.

Response:

Mr. Moul did not study in detail the bypass threat of each company in his Electric Group. However, he is aware that bypass is usually a threat when self-generation is available when a commercial or industrial customer is in close proximity to interstate pipeline or gas producing wells that provide fuel to generate electricity. Self-generation for residential customers is usually associated with solar. In addition, there is the opportunity to bypass the electric delivery system through interconnection directly to electric transmission lines owned by others transmission operators. This represents a real threat for UGI Utilities – Electric Division.

Prepared by or under the supervision of: Paul R. Moul

I&E-RR-6-D

Request:

Reference UGI Electric Statement No. 5, page 8, lines 5-14. Regarding the risk factors listed, explain if Mr. Moul is aware of any significant changes in the projected number of customers in any particular rate class due to broadening competition or bypass.

Response:

Mr. Moul is not aware of any significant changes in the projected number of customers subject to bypass.

Prepared by or under the supervision of: Paul R. Moul

I&E-RR-9-D

Request:

Reference UGI Electric Statement No. 5, page 1, lines 19-20:

A. State whether Mr. Moul is aware of any electric distribution utilities throughout the United States that have been granted a Commission authorized 10.75% or higher cost of common equity in the past two years.

B. If the answer to I&E-RR-9-D part A is yes, state which company/companies have been authorized such cost of common equity and in what jurisdiction.

Response:

A. Mr. Moul has not researched this issue.

B. See the response to (A) above.

Prepared by or under the supervision of: Paul R. Moul

I&E Statement No. 3
Witness: Ethan H. Cline

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

UGI UTILITIES, INC. – ELECTRIC DIVISION

Docket No. R-2021-3023618

Direct Testimony

of

Ethan H. Cline

Bureau of Investigation and Enforcement

Concerning:

Electric Vehicle Charging Stations
Battery Storage Project
Utility Plant-in-Service
Annual Depreciation Expense
Accumulated Depreciation
Rate Base
Future Test Year and Fully Projected Future Test Year Reports
Customer Charge
Scale Back of Rates

TABLE OF CONTENTS

<u>INTRODUCTION</u>

Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. My name is Ethan H. Cline. My business address is P.O. Box 3265, Harrisburg, PA 17105-3265.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Pennsylvania Public Utility Commission in the Bureau of Investigation and Enforcement ("I&E") as a Fixed Utility Valuation Engineer.

Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

A. My education and professional background are set forth in Appendix A, which is attached.

Q. PLEASE DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.

A. I&E is responsible for protecting the public interest in proceedings before the Commission. The I&E analysis in the proceeding is based on its responsibility to represent the public interest. This responsibility requires the balancing of the interests of ratepayers, the regulated utility, and the regulated community as a whole.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my testimony is to evaluate UGI Utilities, Inc. – Electric Division ("UGI Electric" or "Company") request for an annual increase in operating revenue of approximately $8,709,000. My testimony will address issues related to the proposed rate base, revenue, and rate design.

Q. DOES YOUR TESTIMONY INCLUDE AN EXHIBIT?

A. Yes. I&E Exhibit No. 3 contains schedules relating to my testimony.

Q. PLEASE DESCRIBE THE FILING.

A. On February 8, 2021, UGI Electric filed a base rate increase request of $8,709,000 using the Fully Projected Future Test Year ("FPFTY") ending September 30, 2022.

ELECTRIC VEHICLE CHARGING STATIONS

Q. WHAT IS UGI ELECTRIC PROPOSING REGARDING THE ELECTRIC VEHICLE CHARGING STATION PILOT?

A. UGI Electric is proposing to install and own three Electric Vehicle ("EV") charging stations in its service territory.

Q. WHY IS UGI ELECTRIC PROPOSING TO INSTALL AND OWN THREE EV CHARGING STATIONS IN ITS SERVICE TERRITORY?

A. According to UGI Electric witness Sorber, there are no existing EV charging stations in its service territory and UGI Electric's proposal is "an effort to support EV development directly and gain additional first-hand metrics regarding EV charging utilization demands and usage patterns." (UGI St. No. 3, p. 29).

Q. DOES UGI ELECTRIC INTEND FOR THE CHARGING STATIONS TO BE PUBLICLY AVAILABE?

A. Yes. Mr. Sorber indicated on page 30 of UGI Electric Statement No. 3 that the Company identified three general locations that are along primary transportation corridors, near population centers, and have high levels of traffic.

Q. WHAT GOALS DID UGI ELECTRIC IDENTIFY FOR ITS PROPOSED EV CHARGING STATIONS?

A. Mr. Sorber identified the following three goals on page 30 of UGI Electric Statement No. 3:

- Provide an initial backdrop to what eventually will be a market driven service (i.e., to install local, publicly available, electric charging infrastructure);
- Foster a level of experience managing these facilities to accurately consider the impacts on long term distribution planning; and
- Gathering charging station metrics, analytics, operational performance, and usage data, which would enable UGI Electric to promote future development of the EV marketplace.

Q. WHAT IS THE COST ASSOCIATED WITH THE EV CHARGING STATION PROJECT?

A. UGI Electric included $300,000 in the fiscal year 2022 capital budget which includes all equipment, site preparation, installations costs, and UGI Electric supply and service make-ready work (UGI Electric St. No. 3, p. 31).

Q. DID THE COMPANY INDICATE ANY INTENTION TO PROVIDE UPDATES OR INFORMATION REGARDING THE PROGRESS OR RESULTS OF THE EV CHARGING PROJECT?

A. No. UGI Electric provided no discussion on the means of providing updates or any reporting on the status of the EV Charing project, the progress that has been made toward meeting its stated goals, or any other valuable information.

Q. ARE YOU RECOMMENDING THAT THE EV CHARGING PROJECT BE APPROVED?

A. Yes. UGI Electric's EV charging station project is a reasonable step towards making EV charging service available to electric vehicle owners within the Company's service area.

Q. DO YOU HAVE A RECOMMENDATION REGARDING THE EV CHARGING PROJECT IF THE COMMISSION APPROVES THE PROJECT?

A. Yes. I recommend that the Company, starting one year after the first EV charging station is deployed and continuing on an annual basis thereafter, provide an update on the status of the EV Charging project, the corresponding plant, operating expenses, revenue and the progress that has made toward meeting its stated goals, and any other related information that may be valuable. Additionally, in its next base rate case, I recommend the Company provide a detailed discussion in testimony regarding its choice to either end, continue as is, or expand its EV charging station operations.

<u>BATTERY STORAGE PROJECT</u>

Q. WHAT IS UGI ELECTRIC PROPOSING REGARDING THE BATTERY STORAGE PROJECT?

A. UGI Electric is proposing to "install and interconnect a utility-owned, small-scale, energy storage battery into the primary distribution system." (UGI Electric St. No. 3, p. 24).

Q. WHY IS THE COMPANY PROPOSING THE BATTERY STORAGE PROJECT?

A. Mr. Sorber stated on page 26 of UGI Electric Statement No. 3 that "[t]he goal of this project is to demonstrate the feasibility of this new technology to support system reliability and to provide the Company, and Company personnel, direct first-hand knowledge and experience with battery storage systems of this type." Specifically, UGI Electric is using the battery storage project to target 68 customers within the Company's service territory near Wapwallopen, PA who have experienced multiple service interruptions over the last several years (UGI Electric St. No. 3, pp. 25-26).

Q. WHAT IS THE COST OF THE BATTERY STORAGE PROJECT?

A. Mr. Sorber indicated that the battery storage project will cost approximately $1.5 million (UGI Electric St. No. 3, p. 26).

Q. DID THE COMPANY IDENTIFY ANY MEANS OF REDUCING THE COST IMPACT OF THE BATTERY STORAGE PROJECT?

A. Yes. UGI Electric witness Taylor, on page 45 of UGI Electric Statement No. 6, described an opportunity for the Company to receive revenues by having the battery storage project participate in PJM's frequency regulation market ("PJM Market D").

Q. WHAT IS PJM MARKET D?

A. As described on page 45 of UGI Electric Statement No. 6, PJM Market D is a market for regulation resources such as generator inertia, adding and subtracting generation assets, and dedicated demand response, and electricity storage, that can help correct for short-term changes in electricity use and generation. These short-term changes have the potential to affect the stability of the power system due to the system frequency being out of acceptable bounds.

Q. DID THE COMPANY PROVIDE AN ESTIMATE OF THE POTENTIAL REVENUE THAT IT COULD RECEIVE FROM CONNECTING THE BATTERY STORAGE PROJECT?

A. No. Mr. Taylor indicated that the level of revenues possible is unknown due to the volatility of PJM Market D clearing prices (UGI Electric St. No. 6, p. 46).

Q. DOES THE COMPANY CONSIDER THE BATTERY STORAGE PROJECT TO BE A PART OF THE DISTRIBUTION SYSTEM?

A. Yes. In its response to OCA-VII-5, attached as I&E Exhibit No. 3, Schedule 1, the Company stated that it considers the battery system to be a distribution asset similar to other distribution facilities such as substations, reclosers, capacitors, and other key elements of distribution system design, construction, operation and control.

Q. WHY IS WHETHER OR NOT THE BATTERY SYSTEM CONSIDERED A PART OF THE DISTRIBUTION SYSTEM IMPORTANT?

A. A key question in determining whether or not the cost of the battery storage project can be recovered in base rates is if battery storage is appropriately designated as distribution, transmission, or generation plant.

Q. WHY IS THE DESIGNATION OF THE BATTERY STORAGE AS DISTRIBUTION, TRANSMISSION, OR GENERATION IMPORTANT?

A. I am advised by counsel that UGI Electric's ownership of generation assets would conflict with the policies that underlie the Electric Generation and Customer Choice and Competition Act ("Choice Act").

Q. WHAT IS THE CHOICE ACT?

A. The Choice Act provides for a competitive market for the generation of electricity, and it indicates that the generation of electricity would no longer be regulated as a public utility function (66 Pa. C.S. § 2802). The result of the Choice Act is that electric distribution companies, like UGI Electric, have been required to unbundle their rates and services and to provide open access over their transmission and distribution systems to permit competitive suppliers to generate and sell electricity directly to consumers in this Commonwealth (66 Pa. C.S. § 2802(14)). Therefore, as I stated above, the key question regarding the battery storage project is whether or not it is designated by the Commission as distribution, transmission, or generation.

Q. WHAT DO YOU RECOMMEND REGARDING UGI ELECTRIC'S PROPOSED BATTERY STORAGE PROJECT?

A. I recommend that UGI Electric's Battery Storage Project be denied because the battery storage project is more appropriately considered a generation asset as I discuss below.

Q. DO YOU AGREE WITH THE COMPANY THAT THE BATTERY STORAGE SHOULD BE CONSIDERED DISTRIBUTION?

A. No. I believe that the battery storage project is more appropriately considered a generation asset.

Q. WHY DO YOU BELIEVE THAT THE BATTERY STORAGE PROJECT IS MORE APPROPRIATELY CATEGORIZED AS A GENERATION ASSET?

A. I believe that the battery storage project is more appropriately categorized as a generation asset due to the ability for UGI Electric to profit from the battery storage's ability to store and release power to either UGI Electric's own customers or to the PJM Market D. This ability allows the Company to maximize its ability to profit from the battery storage by purchasing electricity at a lower base load price, then sell it at a higher price on the PJM market, thus earning a profit from an asset being paid for by distribution customers.

Q. IN ADDITION TO THE GENERATION ISSUE, DO YOU HAVE ANY OTHER CONCERNS?

A. Yes. Regardless of whether this is classified as a generation or distribution asset, battery storage is a technology that is relatively new and the implications, base rate and otherwise, are still unknown. The new and unknown nature of the battery storage is supported by the statement by Mr. Sorber on page 26 of UGI Electric Statement No. 3 that "[t]he goal of this project is to demonstrate the feasibility of this new technology to support system reliability and to provide the Company, and Company personnel, direct first-hand knowledge and experience with battery storage systems of this type." It is my understanding that the present proceeding is the first time that battery storage has been presented in a base rate case setting.

Q. WHY IS THIS CONCERNING FROM A TIMING PERSPECTIVE?

A. This proposal, which is estimated to cost approximately $1.5 million to target 68 customers, is particularly concerning at a time when ratepayers are struggling to recover from the COVID-19 pandemic. I&E has consistently recognized that utilities are entitled to recover prudently incurred operating expenses and the opportunity to recover a return of and on its investments during the COVID-19 pandemic and it continues to do so in this proceeding. However, the proposed battery storage project is not necessary to provide safe and reliable service to UGI Electric customers as it is an experimental project designed to assist 68 customers of the Company's approximate 62,000 customer base.

As a result of the COVID-19, UGI Electric suspended service terminations and late payment fees. Although terminations and late payment fees recently resumed on April 1, 2021, the impact of the pandemic is still being felt by UGI Electric customers. Additionally, in a letter to the Commission on April 13, 2021 regarding customer arrearages, UGI Electric reported that the level of aggregate customer arrearage dollars increased by $1,612,786 from $4,972,663 as of March 31, 2020 to $6,585,449 as of March 31, 2021.[1] Therefore, regardless of whether the battery storage is classified as a distribution or generation asset, this is not the appropriate time to include such costs in rates.

Q. DID ANY UGI ELECTRIC CUSTOMERS TESTIFY ABOUT THE FINANCIAL IMPACT OF COVID-19 AT THE RECENT PUBLIC INPUT HEARINGS?

A. Yes. Telephonic public input hearings were recently held on April 28, 2021. The hearing transcript is not currently available because the hearings occurred just a few days ago; however, I have been advised by counsel that several UGI Electric customers provided testimony that COVID-19 has impacted the local economy in the Company's service territory and caused financial hardship for its customers. I can provide more detail when the public input hearing transcript becomes available.

[1] UGI Utilities Inc. COVID-19 Customer Reporting Requirements: At-Risk Accounts, Docket No. M-2020-3019244, p. 2, April 13, 2021.

Q. IF THE COMMISSION APPROVES THE BATTERY STORAGE PROJECT, DO YOU HAVE ANY RECOMMENDATIONS?

A. Yes. If the Commission approves the battery storage project, I recommend that all generation and distribution revenue received by UGI from connecting the battery storage project be credited 100% to UGI Electric's customers.

Q. WHY DO YOU RECOMMEND ANY REVENUE GENERATED FROM CONNECTING THE BATTERY STORAGE PROJECT BE CREDITED 100% TO UGI ELECTRIC'S CUSTOMERS?

A. As described above, the main purpose of the battery storage project is to provide additional system stability to 68 customers in the Company's service territory near Wapwallopen, PA. However, outside of these 68 customers, the battery storage project provides the rest of UGI Electric's customer base with no benefit whatsoever while they are allocated the full cost of the project. Additionally, the Company did not provide any detail regarding where the cost responsibility for filling the battery storage will fall. Therefore, the potential for double recovery is a distinct possibility and it is reasonable for 100% of the revenues generated from the participation of the battery storage project in PJM's Market D to be used to offset as much of the costs as possible for those customers who receive no benefit from the project.

<u>TEST YEAR</u>

Q. WHAT IS A TEST YEAR AND HOW IS IT USED?

A. A test year is the twelve-month period over which a utility's costs and revenues are measured as the basis for setting prospective base rates. In order to meet its burden of proof, a utility has the option of selecting to use a historic test year ("HTY"), a future test year ("FTY"), or an FPFTY. An HTY is a twelve-month period selected by a company that represents a recent full year of actual data. An FTY begins the day after the HTY ends and is determined using a combination of actual data and a projection of annualized and normalized estimates of future revenues and expenses and a corresponding rate base at the end of that period. The FPFTY is defined as the twelve-month period that begins with the first month that the new rates will be placed into effect, after the application of the full suspension period permitted under Section 1308(d).

Q. WHAT TEST YEARS HAS THE COMPANY USED IN THIS PROCEEDING?

A. UGI Electric has selected the year ended September 30, 2020 as the HTY, the year ending September 30, 2021 as the FTY, and the year ending September 30, 2022 as the FPFTY (UGI Electric St. No. 2, p. 2).

Q. WHAT TEST YEAR HAS THE COMPANY BASED ITS REVENUE REQUIREMENT UPON IN THIS PROCEEDING?

A. UGI Electric based its requested revenue requirement on the FPFTY ending September 30, 2022 (UGI Electric St. No. 2, p. 2).

UTILITY PLANT-IN-SERVICE

Q. WHAT IS UTILITY PLANT-IN-SERVICE?

A. Utility plant-in-service comprises all the utility's intangible assets (i.e., organization costs, franchise and consents costs, and land right costs) and tangible assets (i.e., land, facilities, and equipment). Moreover, for a utility plant to be included in rates, the plant must be used and useful in the provision of utility service to the customers. Therefore, by definition, only plant currently providing or capable of providing utility service to customers is eligible to be reflected in rates.

Q. WHAT IS UGI ELECTRIC'S UTILITY PLANT-IN-SERVICE CLAIM FOR ITS FTY AND FPFTY?

A. UGI Electric's utility plant-in-service claim for the FTY ending September 30, 2020 is $207,813,000 (UGI Electric Ex. A – Future, Sch. C-1). The Company's utility plant-in-service claim for the FPFTY ending September 30, 2022 is $226,945,000 (UGI Electric Ex. A – Fully Projected, Sch. C-1).

Q. DO YOU HAVE A RECOMMENDATION REGARDING UTILITY PLANT-IN-SERVICE IN THIS PROCEEDING?

A. Yes, I recommend that UGI Electric's FPFTY utility plant-in-service be reduced consistent with my recommendation to reject the battery storage project discussed above by $1.5 million from $226,945,390 to $225,445,390. (I&E Ex. No. 3, Sch. 2, col. F, line 6). It should be noted, however, that this recommendation is contingent upon the Commission's rejection of the battery storage project, as I recommended above. If the Commission does not agree with that recommendation and allows the battery storage project, then this adjustment to the utility plant-in-service would no longer apply.

ANNUAL DEPRECIATION EXPENSE

Q. WHAT IS ANNUAL DEPRECIATION EXPENSE?

A. Depreciation is the loss of value of a utility's assets used and useful in the provision of utility service due to usage, passage of time, etc. The National Association of Regulatory Utility Commissioners defines annual depreciation expense as the annual cost associated with the diminution in the usefulness of an asset over time. Depreciation expense is the way the return of a utility's investment is captured in rates and is generally computed by dividing the original cost of an asset by its expected useful life or by multiplying the annual accrual rate by the original cost.

Q. WHAT IS UGI ELECTRIC'S CLAIMED ANNUAL DEPRECIATION EXPENSE FOR THE FTY AND FPFTY?

A. UGI Electric's claimed annual depreciation expense for the FTY ending September 30, 2021 is approximately $6,253,000 (UGI Electric Ex. A – Future, Sch. D-1, line 14) and for the FPFTY ending September 30, 2022 is approximately $7,114,000 (UGI Electric Ex. A – Fully Projected, Sch. D-1, line 14).

Q. DO YOU HAVE A RECOMMENDATION REGARDING THE COMPANY'S ANNUAL DEPRECIATION EXPENSE CLAIM?

A. Yes. I recommend the Company's annual depreciation expense claim in the FPFTY be reduced by $232,642 from $7,114,301 to $6,881,659 (I&E Ex. No. 3, Sch. 3).

Q. HOW DID YOU DETERMINE YOUR RECOMMENDED ADJUSTMENT TO ANNUAL DEPRECIATION EXPENSE?

A. My recommended $232,642 reduction to the Company's claimed depreciation expense consists of three parts. First, I recommend the $90,090 annual depreciation expense claim that corresponds with the annual depreciation expense related to the battery storage project as shown on UGI Electric Exhibit C (Fully Projected Future), p. II-3, account 363 be denied. Second, a reduction of $17,026 to the claimed $34,052 annual depreciation expense for Account 371.1 Installations on Customer Premises – EV Charging Stations. Third, a reduction of

$125,526 to the claimed $340,000 annual depreciation expense for Account 391.92 Office Furniture and Equipment – Outage Management Software.

Q. WHY ARE YOU RECOMMENDING THE $90,090 ANNUAL DEPRECIATION EXPENSE CLAIM ASSOCIATED WITH ACCOUNT 363 BATTERY STORAGE BE DENIED?

A. I recommended that the Commission deny the battery storage project and remove the plant in service claim from rate base. Any corresponding annual depreciation expense associated with the battery storage project would also necessarily be denied.

Q. WHY ARE YOU RECOMMENDING THE $17,026 REDUCTION TO THE ANNUAL DEPRECIATION EXPENSE FOR ACCOUNT 371.1 INSTALLATIONS ON CUSTOMER PREMISES – EV CHARGING STATIONS?

A. As described on UGI Electric Exhibit C (Future), p. II-11, witness Weidmayer explained that "on average, property installed during a year is placed in service at the midpoint of the year for the purpose of the analysis." However, as shown on UGI Electric Exhibit C (Fully Projected Future), p. II-3, account 371.1, the claimed $34,052 annual depreciation expense represents a full year of accrual instead of the mid-point of the year as described by Mr. Weidmayer. Therefore, in order to be consistent with the methodology described by Mr. Weidmayer, the $34,052 annual depreciation expense claim should be reduced by half, or $17,026.

Q. WHY ARE YOU RECOMMENDING THE $126,526 REDUCTION TO THE ANNUAL DEPRECIATION EXPENSE FOR ACCOUNT 391.92 OFFICE FURNITURE AND EQUIPMENT – OUTAGE MANAGEMENT SOFTWARE?

A. Similar to Account 371.1, described above, the annual depreciation expense claim of $340,000 for Account 391.92 Office Furniture and Equipment – Outage Management Software shown on UGI Electric Exhibit C (Fully Projected Future), p. II-3 represents a full year of accrual. Half of the annual depreciation expense claim is $170,000. However, the annual depreciation expense for Account 391.92 Office Furniture and Equipment – Outage Management Software should be reduced further by $44,474, or 26,1612%, from $170,000 to $125,526 in order to reflect the amount allocated to transmission and not included in the total annual depreciation expense claim.

Q. IF THE COMMISSION DOES NOT ACCEPT YOUR RECOMMENDATION TO DENY THE PROPOSED BATTERY STORAGE PROJECT, DO YOU HAVE ANY RECOMMENDATIONS REGARDING THE COMPANY'S ANNUAL DEPRECIATION EXPENSE CLAIM?

A. Yes. Similar to accounts 371.1 and 391.92, described above, the Company's

$90,090 claim for annual depreciation expense for Account 363 Battery Storage represents a full year of accrual instead of the half-year methodology as described by Mr. Weidmayer. Therefore, if the Commission approves the battery storage project, half of the $90,090 annual depreciation expense claim should be included, which would reduce my overall recommended annual depreciation expense adjustment of $232,642 by the same amount. My overall recommendation would then be that the Company's claimed annual depreciation expense be reduced by $187,598 from $7,114,301 to $6,926,703 (I&E Ex. No. 3, Sch. 6).

ACCUMULATED DEPRECIATION

Q. WHAT IS ACCUMULATED DEPRECIATION?

A. A utility's accumulated depreciation is the aggregate of all the annual depreciation expenses over the years that the asset was in service. The accumulated depreciation is subtracted from the original cost of plant in service as part of the total rate base calculation.

Q. WHAT IS UGI ELECTRIC'S CLAIMED ACCUMULATED DEPRECIATION FOR THE FTY AND FPFTY?

A. The accumulated depreciation for the FTY is $71,373,000 (UGI Electric Ex. A – Future, Sch. C-1, line 2) and for the FPFTY is $74,795,000 (UGI Electric Ex. A – Fully Projected, Sch. C-1, line 2).

Q. DID THE COMPANY INCLUDE AN ACCUMULATED DEPRECIATION CLAIM ASSOCIATED WITH THE BATTERY STORAGE PROJECT IN THE FPFTY?

A. No. As shown on UGI Electric Exhibit C (Fully Projected Future), p. II-3 Account 363 Battery Storage, column 5 shows that the Company is claiming a book reserve of $0 for the battery storage project.

Q. ARE THERE OTHER ASSETS WHICH THE COMPANY REFLECTED A $0 CLAIM FOR ACCUMULATED DEPRECIATION?

A. Yes. As shown on UGI Electric Exhibit C (Fully Projected Future), p. II-3 the Company reflected a $0 claim for accumulated depreciation for Account 371.1 Installations on Customer Premises – EV Charging Stations and Account 391.92 Office Furniture and Equipment – Outage Management Software.

Q. DO YOU HAVE A RECOMMENDATION REGARDING THE UTILITY'S ACCUMULATED DEPRECIATION IN THIS PROCEEDING?

A. My primary recommendation is to increase accrued depreciation by $142,552 which excludes the plant associated with the Battery Storage project (I&E Ex. No. 3, Sch. 4, line 6, column B). However, if the Commission disagrees with my recommendation to deny the Battery Storage project, I recommend an increase in accrued depreciation of $187,597 (I&E Ex. No. 3, Sch. 2, line 6, column B).

Q. HOW DID YOU DETERMINE THE $187,597 RECOMMENDED INCREASE TO ACCUMULATED DEPRECIATION?

A. Each asset discussed above, Account 363 Battery Storage, Account 371.1 Installations on Customer Premises – EV Charging Stations and Account 391.92 Office Furniture and Equipment – Outage Management Software, included a claim for annual depreciation expense (UGI Electric Ex. C (Fully Projected Future), p. II-3). The time periods used for annual depreciation expense and accumulated depreciation should align. Therefore, for each asset, I added the half-year annual depreciation expense amount that I recommended above as accumulated depreciation, properly allocated to distribution plant, as shown on the table below:

Calculation of FPFTY Accumulated Depreciation			
Account No.	Original Cost	I&E FPFTY Annual Depreciation Expense	Accumulated Depreciation
363	$1,500,000	$45,045	$45,045
371.1	$300,000	$17,026	$17,026
391.92	$1,700,000	$125,526	$125,526
TOTAL:	$3,500,000	$187,598	$187,598

Q. HOW DID YOU DETERMINE THE $142,552 RECOMMENDED INCREASE TO ACCUMULATED DEPRECIATION?

A. The $142,552 ($17,026 + $125,526) adjustment is the total of accounts 371.1 and 391.92 described above. The $142,552 excludes account 363 which will be excluded if the Commission accepts my recommendation to deny the battery storage project.

Q. WHY SHOULD THE COMPANY'S ACCUMULATED DEPRECIATION CLAIM BE INCREASED?

A. As described above, accumulated depreciation represents the aggregate of all the annual depreciation expenses over the years that the asset was in service. In other words, UGI Electric is claiming a full year of return of its investment regardless of when the battery storage project will actually be put into service. However, at the same time, the Company did not reflect that same year when it determined its accumulated depreciation which, as I described above, is the aggregate of the annual depreciation expense accrued over the years the asset was in service. Therefore, if the Company reflects an annual depreciation expense, then it must also reflect a corresponding accumulated depreciation claim.

RATE BASE

Q. WHAT IS RATE BASE?

A. Rate base, also known as measure of value, is the depreciated original cost of a utility's investment in plant that is in place to serve customers plus other additions and deductions that the Commission deems necessary in order to keep the utility operating and providing safe and reliable service to its customers.

Q. HOW IS RATE BASE USED IN THE RATEMAKING FORMULA?

A. Rate base is one part of the financial equation used by the Commission to determine the appropriate revenue that a utility is granted in a rate proceeding. The revenue determination allows the utility to meet its expense obligations and gives it the opportunity to earn the rate of return established by the Commission in a rate proceeding. The equation used to determine the proper revenue requirement is:

Revenue Requirement = (Rate Base x Rate of Return) + Operating Expenses + Depreciation Expense + Taxes

Q. HOW IS THE DEPRECIATED ORIGINAL COST OF PLANT-IN-SERVICE AT THE END OF THE TEST YEAR DETERMINED?

A. The depreciated original cost is determined by subtracting the book reserve, which is the accumulation of all prior annual depreciation expense, and other items such as salvage value from the original cost of the plant in service that is projected to be used and useful in the public service. The depreciated original cost of the plant in service is determined by taking a "snapshot" look at the depreciated original cost value of used and useful utility plant in service at the end of the FPFTY.

Q. WHAT IS UGI ELECTRIC'S DEPRECIATED ORIGINAL COST OF UTILITY PLANT-IN-SERVICE FOR THE FTY AND FPFTY?

A. UGI Electric is claiming a depreciated original cost of utility plant-in-service for the FTY of $101,140,532 (UGI Electric Exhibit A – Future, Sch. C-1, line 3) and for the FPFTY of $123,622,386 (UGI Electric Exhibit A – Fully Projected, Sch. C-1, line 3).

Q. WHAT ADDITIONS AND DEDUCTIONS ARE INCLUDED IN THE COMPANY'S RATE BASE CALCULATION?

A. The Company's calculation includes additions of Materials and Supplies and Cash Working Capital as well as deductions of accumulated deferred income taxes ("ADIT") and customer deposits as shown on UGI Electric Exhibit A – Fully Projected, Schedule C-1.

Q. IS I&E RECOMMENDING ANY ADJUSTMENTS TO THE ADDITIONS AND DEDUCTIONS LISTED ABOVE?

A. No. While I understand that my recommended adjustments to plant additions can impact the claimed ADIT, I lack the underlying tax detail to make any corresponding recommendations.

Q. WHAT IS I&E'S RATE BASE RECOMMENDATION IF THE BATTERY STORAGE PROJECT IS DENIED?

A. If the battery storage project is denied, I am recommending a reduction in the Company's FPFTY base rate claim of $1,642,552 from $131,831,518 to $130,188,966 (I&E Ex. No. 3, Sch. 2, line 14).

Q. WHAT IS I&E'S RATE BASE RECOMMENDATION IF THE BATTERY STORAGE PROJECT IS APPROVED?

A. If the battery storage project is approved, I recommend a reduction in the Company's FPFTY base rate claim of $187,597 from $131,831,518 to $131,643,921 (I&E Ex. No. 3, Sch. 4, line 14).

FTY AND FPFTY REPORTING

Q. WHAT AMOUNT OF ADDITIONAL RATE BASE WILL BE ASSOCIATED WITH THE INCLUSION OF THE FPFTY ENDING SEPTEMBER 30, 2022 FOR UGI ELECTRIC?

A. As mentioned above, the Company's claimed rate base for the FPFTY ending September 30, 2022 is $131,831,000 (UGI Electric Ex. A – Fully Projected, Sch. C-1). UGI Electric's rate base for the FTY ending September 30, 2021 is $116,462,000 (UGI Electric REVISED Ex. A – Future, Sch. C-1). Therefore, $15,369,000 ($131,831,000 – $116,462,000) of rate base additions are associated with the FPFTY.

Q. DO YOU HAVE ANY RECOMMENDATIONS REGARDING PLANT ADDITIONS THAT UGI ELECTRIC PROJECTS TO BE IN SERVICE DURING THE FTY ENDING SEPTEMBER 30, 2021 AND THE FPFTY ENDING SEPTEMBER 30, 2022?

A. Yes. I recommend that the Company provide the Commission's Bureaus of Technical Utility Services and Investigation and Enforcement with an update to UGI Electric Volume 5 – Exhibit 3-C, no later than January 2, 2022, which should include actual capital expenditures, plant additions, and retirements by month from October 1, 2020 through September 30, 2021 and an additional update for actuals from October 1, 2021 through September 30, 2022, no later than January 2, 2023.

Q. WHY DO YOU RECOMMEND THAT UGI ELECTRIC PROVIDE THESE UPDATES?

A. Through use of the FPFTY, a utility is allowed to require ratepayers, in essence, to pre-pay a return on a utility's projected investment in future facilities that are not in place and providing service at the time the new rates take effect and are not subject to any guarantee of being completed and placed into service. While the FPFTY provides for such projections, there should be some timely verification of the projections. Usage of the FPFTY has become common practice by Pennsylvania utilities, including UGI Electric, and the Company agreed to provide such projections as part of its previous base rate case in which it made use of the FPFTY.

<u>FORFEITED DISCOUNTS</u>

Q. WHAT ARE FORFEITED DISCOUNTS?

A. A public utility can assess a separate charge to customers who do not pay their bill on time. The term forfeited discounts revenue, also referred to as late payment charges, refers to the revenue received by the utility as a result of this charge.

Q. HOW MUCH REVENUE FROM FORFEITED DISCOUNTS DID THE COMPANY BUDGET?

A. UGI Electric budgeted $468,000 in forfeited discount under present rates in the FPFTY ending September 30, 2022 (UGI Electric Ex. A – Fully Projected, Sch. D-5).

Q. WHAT LEVEL OF FORFEITED DISCOUNTS IS THE COMPANY CLAIMING AT PROPOSED RATES FOR THE FPFTY ENDING SEPTEMBER 30, 2022?

A. UGI Electric is projecting the same $468,000 of forfeited discounts under proposed rates for the FPFTY ending September 30, 2022 (UGI Electric Ex. A – Fully Projected, Sch. D-2, line 6, col. 6).

Q. WHAT DO YOU RECOMMEND REGARDING THE AMOUNT OF REVENUE FROM FORFEITED DISCOUNTS THE COMPANY WILL RECEIVE UNDER PROPOSED RATES FOR THE FPFTY?

A. I believe it is reasonable to expect that forfeited discounts revenues will increase when a utility's base rates are increased as a result of a base rate proceeding. Since forfeited discounts are generally a percentage of a customer's bill, increasing revenue through a rate increase will cause revenues from forfeited discounts to increase over time. Therefore, I recommend that UGI Electric's forfeited discount claim in the FPFTY be increased by the same percent increase as the overall base rate increase granted by the Commission.

<u>CUSTOMER COST ANALYSIS</u>

Q. WHAT IS A CUSTOMER COST ANALYSIS AND HOW IS IT USED?

A. A customer cost analysis is part of a cost of service study that includes only customer costs. It is used to determine the appropriate customer charges for the various classes.

Q. DID THE COMPANY PREPARE AN ANALYSIS TO SUPPORT ITS PROPOSAL TO INCREASE THE CUSTOMER CHARGES?

A. Yes. The Company completed a customer cost analysis presented in UGI Electric Exhibit D.

Q. WHAT RESULT DID THE COMPANY PRESENT FROM ITS CUSTOMER COST ANALYSIS?

A. The results of the customer cost analysis, shown on page 25 of UGI Electric Statement No. 6, indicate a $19.58 per customer cost.

Q. ARE YOU RECOMMENDING ANY CHANGES TO THE COMPANY'S CUSTOMER COST ANALYSIS?

A. No.

Q. WHAT RESIDENTIAL MONTHLY CUSTOMER CHARGE IS THE COMPANY RECOMMENDING?

A. The Company is recommending that the current residential customer charge of $8.34 be increased to $13.00 (UGI Electric Statement No. 6, pp. 26).

Q. ARE YOU RECOMMENDING ANY ADJUSTMENTS TO THE COMPANY'S PROPOSED RESIDENTIAL CUSTOMER CHARGE OF $13.00?

A. Yes. While the Company's proposed $13.00 customer charge is supported by the customer cost analysis, the $4.25 increase from $8.74 to $13.00, or approximately 49%, is a significant increase. Therefore, I recommend that the customer charge be included in the scale back of rates if the Commission grants less than the full requested increase. Similarly, the Commission granted a lower customer charge despite approving the Company's customer cost analysis in the last UGI Electric base rate case at docket R-2017-2640058, p. 182, order entered October 25, 2018.

Q. WHAT CUSTOMER CHARGE IS THE COMPANY PROPOSING FOR THE GS-1 RATE CLASS?

A. The Company is proposing to increase the GS-1 class customer charge by $4.17 from $9.83 to $14.00 (UGI Electric Ex. E, p. 13).

Q. ARE YOU RECOMMENDING A SCALE BACK OF THE COMPANY'S PROPOSED $14.00 GS-1 CUSTOMER CHARGE?

A. Yes. Similar to the residential class, the proposed 42% (($14.00 - $9.83) / $9.83) increase to the GS-1 class customer charge represents a significant increase. Therefore, if the Commission grants less than the full requested increase, I recommend that the $14.00 GS-1 customer charge be scaled back.

<u>SCALE BACK OF RATES</u>

Q. WHAT SCALE BACK METHODOLOGY DO YOU RECOMMEND IF THE COMMISSION GRANTS LESS THAN THE FULL INCREASE?

A. If the Commission grants less than the Company's requested increase, I recommend the first $105,000 be applied to the GS-1 rate class. Any further reductions should be applied proportional to the percent increase shown on I&E Ex. 3, Sch. 5, column H.

Q. WHAT IS THE RATE OF RETURN AND THE RELATIVE RATE OF RETURN, AND WHY ARE THEY IMPORTANT?

A. One of the determinations in a cost of service study is the rate of return earned by each class. It is often described as relative to the overall rate of return where a relative rate of return less than 1.0 indicates that the revenue received from that class is less than the cost of providing service to that class. A relative rate of return greater than 1.0 indicates that the revenue received from that class is more than the cost of providing service to that class.

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDED SCALE BACK METHODOLOGY?

A. As shown on Table 2 on page 22 of UGI Electric Statement No. 6, the relative rate of return for the residential rate class under present rates is negative 0.39 while the relative rate of return at present rates for the GS-1 rate class is 0.36. This shows that the revenue from both classes is less revenue than their respective cost to serve. In spite of the fact that the residential class relative rate of return is lower than the relative rate of return for the GS-1 class, the Company proposed a larger percentage increase for the GS-1 class. To eliminate the larger percentage increase for the GS-1 class, I recommend the first $105,000 of any scale back be applied to the GS-1 class.

Q. AFTER THE FIRST $105,000 IS APPLIED, WHAT IS THE PERCENTAGE INCREASE THAT REMAINS FOR THE RESIDENTIAL AND GS-1 CLASSES?

A. After the first $105,000 is applied to the GS-1 rate class, the remaining increase for both classes is 12.9% (I&E Ex. 3, Sch. 5, column H). As described above, any further scale back should then be applied proportionally to the percentage increases under column H.

Q. AFTER THE FIRST $105,000 IS APPLIED TO THE GS-1 CLASS, WHY IS A PROPORTIONAL SCALEBACK REASONABLE?

A. A proportional scaleback is fair to both classes and will move the relative rate of return for both classes towards 1.0, without any undue burden on either class.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

ETHAN H. CLINE

PROFESSIONAL EXPERIENCE AND EDUCATION

EXPERIENCE:

03/2009 - Present

Office of Trial Staff, Pennsylvania Public Utility Commission - Harrisburg, Pennsylvania

Fixed Utility Valuation Engineer – Assists in the performance of studies and analyses of the engineering-related areas including valuation, depreciation, cost of service, quality and reliability of service as they apply to fixed utilities. Assists in reviewing, comparing and performing analyses in specific areas of valuation engineering and rate structure including valuation concepts, original cost, rate base, fixed capital costs, inventory processing, excess capacity, cost of service, and rate design.

06/2008 – 09/2008

Akens Engineering, Inc. - Shiremanstown, Pennsylvania

Civil Engineer – Responsible, primarily, for assisting engineers and surveyors in the planning and design of residential development projects

10/2007 – 05/2008

J. Michael Brill and Associates - Mechanicsburg, Pennsylvania

Design Technician – Responsible, primarily, for assisting engineers in the permit application process for commercial development projects.

01/2006 – 10/2007

CABE Associates, Inc. - Dover, Delaware

Civil Engineer – Responsible, primarily, for assisting engineers in performing technical reviews of the sewer and sanitary sewer systems of Sussex County, Delaware residential development projects.

EDUCATION:

Pennsylvania State University, State College, Pennsylvania
Bachelor of Science; Major in Civil Engineering, 2005

- Attended NARUC Rate School, Clearwater, FL

TESTIMONY SUBMITTED:

I have testified and/or submitted testimony in the following proceedings:

1. Clean Treatment Sewage Company, Docket No. R-2009-2121928
2. Pennsylvania Utility Company – Water Division, Docket No. R-2009-2103937
3. Pennsylvania Utility Company – Sewer Division, Docket No. R-2009-2103980
4. UGI Central Penn Gas, Inc., 1307(f) proceeding, Docket No. R-2010-2172922
5. PAWC Clarion Wastewater Operations, Docket No. R-2010-2166208
6. PAWC Claysville Wastewater Operations, Docket No. R-2010-2166210
7. Citizens' Electric Company of Lewisburg, Pa, Docket No. R-2010-2172665
8. City of Lancaster – Bureau of Water, Docket No. R-2010-2179103
9. Peoples Natural Gas Company LLC, Docket No. R-2010-2201702
10. UGI Central Penn Gas, Inc., Docket No. R-2010-2214415
11. Pennsylvania-American Water Company, Docket No. R-2011-2232243
12. Pentex Pipeline Company, Docket No. A-2011-2230314
13. Peregrine Keystone Gas Pipeline, LLC, Docket No. A-2010-2200201
14. Philadelphia Gas Works 1307(f), Docket No. R-2012-2286447
15. Peoples Natural Gas Company LLC, Docket No. R-2012-2285985
16. Equitable Gas Company, Docket Nos. R-2012-2312577, G-2012-2312597
17. City of Lancaster – Sewer Fund, Docket No. R-2012-2310366
18. Peoples TWP, LLC 1307(f), Docket No. R-2013-2341604
19. UGI Penn Natural Gas, Inc. 1307(f), Docket No. R-2013-2361763
20. UGI Central Penn Gas, Inc. 1307(f), Docket No. R-2013-2361764
21. Joint Application, Docket Nos. A-2013-2353647, A-2013-2353649, A-2013-2353651
22. City of Dubois – Bureau of Water, Docket No. R-2013-2350509
23. The Columbia Water Company, Docket No. R-2013-2360798
24. Pennsylvania American Water Company, Docket No. R-2013-2355276
25. Generic Investigation Regarding Gas-on-Gas Competition, Docket Nos. P-2011-227868, I-2012-2320323
26. Philadelphia Gas Works 1307(f), Docket No. R-2014-2404355
27. Pike County Light and Power Company (Gas), Docket No. R-2013-2397353
28. Pike County Light and Power Company (Electric), Docket No. R-2013-2397237
29. Peoples Natural Gas Company LLC 1307(f), Docket No. R-2014-2403939
30. UGI Penn Natural Gas, Inc. 1307(f), Docket No. R-2014-2420273
31. UGI Utilities, Inc. – Gas Division 1307(f), Docket No. R-2014-2420276
32. UGI Central Penn Gas, Inc. 1307(f), Docket No. R-2014-2420279
33. Emporium Water Company, Docket No. R-2014-2402324
34. Borough of Hanover – Hanover Municipal Water, Docket No. R-2014-2428304
35. Philadelphia Gas Works 1307(f), Docket No. R-2015-2465656

36. Peoples Natural Gas Company LLC 1307(f), Docket No. R-2015-2465172
37. Peoples Natural Gas Company – Equitable Division 1307(f), Docket No. R-2015-2465181
38. PPL Electric Utilities Corporation, Docket No. R-2015-2469275
39. UGI Penn Natural Gas, Inc. 1307(f), Docket No. R-2015-2480934
40. UGI Central Penn Gas, Inc. 1307(f), Docket No. R-2015-2480937
41. UGI Utilities, Inc. – Gas Division 1307(f), Docket No. R-2015-2480950
42. UGI Utilities, Inc. – Gas Division, Docket No. R-2015-2518438
43. Joint Application of Pennsylvania American Water, et al., Docket No. A-2016-2537209
44. UGI Utilities, Inc. – Gas Division 1307(f), Docket No. R-2016-2543309
45. UGI Central Penn Gas, Inc. 1307(f), Docket No. R-2016-2543311
46. City of Dubois – Company, Docket No. R-2016-2554150
47. UGI Penn Natural Gas, Inc., Docket No. R-2016-2580030
48. UGI Central Penn Gas, Inc. 1307(f), Docket No. R-2017-2602627
49. UGI Penn Natural Gas, Inc. 1307(f), Docket No. R-2017-2602633
50. UGI Utilities, Inc. – Gas Division 1307(f), Docket No. R-2017-2602638
51. Application of Pennsylvania American Water Company Acquisition of the Municipal Authority of the City of McKeesport, Docket No. A-2017-2606103
52. Pennsylvania American Water Company, Docket No. R-2017-2595853
53. Pennsylvania American Water Company Lead Line Petition, Docket No. P-2017-2606100
54. UGI Utilities, Inc. – Electric Division, Docket No. R-2017-2640058
55. Peoples Natural Gas Company, LLC – Peoples and Equitable Division 1307(f), Docket Nos. R-2018-2645278 & R-2018-3000236
56. Peoples Gas Company, LLC 1307(f), Docket No. R-2018-2645296
57. Columbia Gas of Pennsylvania, Inc., Docket No. R-2018-2647577
58. Duquesne Light Company, Docket No. R-2018-3000124
59. Suez Water Pennsylvania, Inc., Docket No. R-2018-3000834
60. Application of Pennsylvania American Water Company Acquisition of the Municipal Authority of the Township of Sadsbury, Docket No. A-2018-3002437
61. The York Water Company, Docket No. R-2018-3000006
62. Application of SUEZ Water Pennsylvania, Inc. Acquisition of the Water and Wastewater Assets of Mahoning Township, Docket Nos. A-2018-3003517 and A-2018-3003519
63. Pittsburgh Water and Sewer Authority, Docket Nos. R-2018-3002645 and R-2018-3002647
64. Joint Application of Aqua America, Inc. et al., Acquisition of Peoples Natural Gas Company LLC, et al., Docket Nos. A-2018-3006061, A-2018-3006062, and A-2018-3006063

65. Implementation of Chapter 32 of the Public Utility Code Regarding Pittsburgh Water and Sewer Authority, Docket Nos. M-2018-2640802 and M-2018-2640803
66. Philadelphia Gas Works 1307(f), Docket No. R-2019-3007636
67. People Natural Gas Company, LLC, Docket No. R-2018-3006818
68. Application of Pennsylvania American Water Company Acquisition of the Steelton Borough Authority, Docket No. A-2019-3006880
69. Application of Aqua America, Inc. et al., Acquisition of the Wastewater System Assets of the Township of Cheltenham, Docket No. A-2019-3006880
70. Philadelphia Gas Works, Docket No. R-2019-3009016
71. Wellsboro Electric Company, Docket No. R-2019-3008208
72. Valley Energy, Inc., Docket No. R-2019-3008209
73. Citizens' Electric Company of Lewisburg, Pa, Docket Non. R-2019-3008212
74. Application of Aqua America, Inc. et al., Acquisition of the Wastewater System Assets of the East Norriton Township, Docket No. A-2019-3009052
75. Peoples Natural Gas Company, LLC 1307(f), Docket No. R-2020-3017850
76. Peoples Gas Company, LLC 1307(f), Docket No. R-2020-3017846
77. Philadelphia Gas Works, Docket No. R-2020-3017206
78. Pittsburgh Water and Sewer Authority, Docket Nos. R-2020-3017951 et al.
79. Columbia Gas of Pennsylvania, Docket No. R-2020-3018835
80. Pennsylvania America Water Company, Docket Nos. R-2020-3019369 and R-2020-3019371
81. PECO Energy Company – Gas Division, Docket No. R-2020-3019829
82. PGW 1307(f), Docket No. R-2021-3023970

I&E Exhibit No. 3
Witness: Ethan H. Cline

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

UGI UTILITIES, INC. – ELECTRIC DIVISION

Docket No. R-2021-3023618

Exhibit to Accompany

the

Direct Testimony

of

Ethan H. Cline

Bureau of Investigation and Enforcement

Concerning:

Electric Vehicle Charging Stations
Battery Storage Project
Utility Plant-in-Service
Annual Depreciation Expense
Accumulated Depreciation
Rate Base
Future Test Year and Fully Projected Future Test Year Reports
Customer Charge
Scale Back of Rates

UGI Utilities, Inc. - Electric Division
Docket No. R-2021-3023618
UGI Electric 2021 Base Rate Case
Responses to OCA Set VII (1-14)
Delivered on April 12, 2021

OCA-VII-5

Request:

Has UGI-E considered the possibility of third party ownership over the battery and entering into an agreement with the third party to provide the aforementioned services? If yes, please provide the Company's evaluation of such an agreement. If no, why not?

Response:

As the Company considers the battery system to be a distribution asset, similar to other distribution facilities, such as substations, reclosers, capacitors, and other key elements of distribution system design, construction, operation and control, the Company has not considered third party ownership. Also, given that this is new technology from a resiliency implementation standpoint and the Company's first reliability project involving battery technology, and the importance of understanding numerous control and dispatch operating protocols for this asset class within the distribution system, ownership and control of the facility are critical in order for the Company to develop a better understanding of the use and cost-effectiveness of this technology for future system needs.

Prepared by or under the supervision of: Eric W. Sorber

UGI UTILITIES, INC. - ELECTRIC DIVISION
R-2021-3023618
Summary of Rate Base Adjustments
Rate Base without Battery Storage Project

Line No.	Description	Company Depreciated Original Cost 9/30/2022 (A)	I&E Rate Base Adjustment (B)	I&E Depreciated Original Cost 9/30/2022 (C)
1	Distribution Plant	$208,174,064	$ (1,500,000)	$206,674,064
2	Other Utility Plant Allocated to Electric	$25,422,035	$ -	$25,422,035
3	Other Plant Allocated to Transmission	($6,650,709)	$ -	($6,650,709)
4				
5	**Total Utility Plant In Service**	**$226,945,390**	**$ (1,500,000)**	**$225,445,390**
6	Accumulated Depreciation	$74,794,872	$ 142,552	$74,937,424
7	**Net Utility Plant In Service**	**$152,150,518**	**$ (1,642,552)**	**$150,507,966**
8	***Add:***			
	Materials And Supplies	$1,309,000	$ -	$1,309,000
	Cash Working Capital	$7,657,000	$ -	$7,657,000
9				
10	**Deduct:**			
11	Accumulated Deferred Income Taxes	$28,088,000	$ -	$28,088,000
12	Customer Deposits	$1,197,000	$ -	$1,197,000
13	**Sub-Total**	**($20,319,000)**	**$ -**	**($20,319,000)**
14	**Total Measure of Value**	**$131,831,518**	**$ (1,642,552)**	**$130,188,966**

UGI UTILITIES, INC. - ELECTRIC DIVISION
R-2021-3023618
Summary Annual Depreciation Expense
($ in thousands)

Line No.	Description	Original Cost Proposed 9/30/2022	I&E Depreciated Original Cost 9/30/2022	I&E FPFTY Rate Base Adjustment
		(A)	(B)	(C)
1	Depreciation Expense	$ 6,823	$ 6,590	$ (233)
2	Amortization of Net Salvage	$ 565	$ 565	$ -
3	Charged to Clearing Accounts	$ (273)	$ (273)	$ -
4	**Annual Depreciation Expense**	**$ 7,114.301**	**$ 6,881.659**	**$ (232.642)**

UGI UTILITIES, INC. - ELECTRIC DIVISION
R-2021-3023618
Summary of Rate Base Adjustments
Rate Base with Battery Storage Project Included

Line No.	Description	Company Depreciated Original Cost 9/30/2022	I&E Rate Base Adjustment	I&E Depreciated Original Cost 9/30/2022
		(A)	(B)	(C)
1	Distribution Plant	$208,174,064	$ -	$208,174,064
2	Other Utility Plant Allocated to Electric	$25,422,035	$ -	$25,422,035
3	Other Plant Allocated to Transmission	($6,650,709)	$ -	($6,650,709)
4				
5	**Total Utility Plant In Service**	**$226,945,390**	**$ -**	**$226,945,390**
6	Accumulated Depreciation	$74,794,872	$ 187,597	$74,982,469
7	**Net Utility Plant In Service**	**$152,150,518**	**$ (187,597)**	**$151,962,921**
8	***Add:***			
	Materials And Supplies	$1,309,000	$ -	$1,309,000
	Cash Working Capital	$7,657,000	$ -	$7,657,000
9				
10	**Deduct:**			
11	Accumulated Deferred Income Taxes	$28,088,000	$ -	$28,088,000
12	Customer Deposits	$1,197,000	$ -	$1,197,000
13	**Sub-Total**	**($20,319,000)**	**$ -**	**($20,319,000)**
14	**Total Measure of Value**	**$131,831,518**	**$ (187,597)**	**$131,643,921**

UGI Utilities, Inc. - Electric Division
Proof of Revenue Summary - Total Revenue
12-months Ended September 30, 2022

	Rate	Customers	Fixtures	Sales (kWh)	Total Present Revenue	Proposed Revenue	Revenue Change	Percent Change from Present Revenue	Percent of Total Rate Increase
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
1	R	55,038		568,717,339	$ 63,035,939	$ 71,155,577	$8,119,638	12.9%	94.4%
2	GS-1 & GS-5	5,564		29,996,862	$ 3,771,006	$ 4,256,235	$485,229	12.9%	5.6%
3	GS-4 & FCP	2,274		119,529,528	$ 10,114,615	$ 10,114,134	-$481	0.0%	0.0%
4	Lighting		9,112	7,421,188	$ 1,430,978	$ 1,430,949	-$29	0.0%	0.0%
5	LP	197		267,219,118	$ 7,681,646	$ 7,681,342	-$304	0.0%	0.0%
6	**Total - Rate Class**	**63,072**		**992,884,035**	**$ 86,034,185**	**$ 94,638,237**	**$8,604,052**	**10.0%**	
7	Other Operating Revenue				$ 1,029,976	$ 1,029,976	$0		
8	**Total Revenue**				**$ 87,064,161**	**$ 95,668,213**	**$8,604,052**	**9.9%**	
9					Original Request		$8,709,052		
10					**First Dollar Relief**		**$105,000**		

UGI UTILITIES, INC. - ELECTRIC DIVISION
R-2021-3023618
Summary Annual Depreciation Expense including Battery Storage
($ in thousands)

Line No.	Description	Original Cost Proposed 9/30/2022 (A)	I&E Depreciated Original Cost 9/30/2022 (B)	I&E FPFTY Rate Base Adjustment (C)
1	Depreciation Expense	$ 6,823	$ 6,635	$ (188)
2	Amortization of Net Salvage	$ 565	$ 565	$ -
3	Charged to Clearing Accounts	$ (273)	$ (273)	$ -
4	**Annual Depreciation Expense**	**$ 7,114.301**	**$ 6,926.703**	**$ (187.598)**

I&E Statement No. 2-R
Witness: Anthony Spadaccio

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

UGI UTILITIES, INC. – ELECTRIC DIVISION

Docket No. R-2021-3023618

Rebuttal Testimony

of

Anthony Spadaccio, CRRA

Bureau of Investigation & Enforcement

Concerning:

COVID-19 Emergency Relief Program

Self-Certification of Low-Income Status

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INTRODUCTION OF WITNESS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Anthony Spadaccio. My business address is Pennsylvania Public Utility Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg, PA 17120.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Pennsylvania Public Utility Commission (Commission) in the Bureau of Investigation & Enforcement (I&E) as a Fixed Utility Financial Analyst.

Q. ARE YOU THE SAME ANTHONY SPADACCIO WHO IS RESPONSIBLE FOR THE DIRECT TESTIMONY CONTAINED IN I&E STATEMENT NO. 2 AND THE SCHEDULES IN I&E EXHIBIT NO. 2?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to address the COVID-19 Emergency Relief Program (ERP) for UGI Utilities, Inc. – Electric Division (UGI Electric or Company) as discussed by Office of Consumer Advocate (OCA) witness Roger D. Colton (OCA Statement No. 4) and the Commission on Economic Opportunity (CEO) witness Eugene M. Brady (CEO Statement No. 1). Additionally, I will address Mr. Colton's recommendation for the Company to accept self-certification of low-income status.

COVID-19 ERP

Q. SUMMARIZE MR. COLTON'S TESTIMONY REGARDING A COVID-19 ERP FOR UGI ELECTRIC.

A. In response to the COVID-19 pandemic, Mr. Colton recommends that UGI Electric continue to pursue implementation of its originally proposed ERP (Docket No. P-2021-3023992) within this rate proceeding.[1] He notes that the petition was neither approved nor denied by the Commission during its March 25, 2021 Public Meeting,[2] and that this rate proceeding provides an opportunity for the Company to build on the needs identified in its original petition.[3]

Q. WHAT IS THE BASIS FOR MR COLTON'S RECOMMENDATION FOR THE COMPANY TO PURSUE AN ERP?

A. Mr. Colton largely cites to Phase 3 of the United States Census Bureau's Household Pulse Survey[4] to explain the impacts of COVID-19 in Pennsylvania.[5] The data he refers to encompasses the period from October 2020 through March 2021 and generally compares experienced vs. expected loss of employment

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[1] OCA Statement No. 4, p. 24, lines 21-23.
[2] OCA Statement No. 4, p. 22, lines 27-28.
[3] OCA Statement No. 4, p. 23, lines 14-15.
[4] https://www.census.gov/programs-surveys/household-pulse-survey/data.html#phase1 (Accessed May 11, 2021).
[5] OCA Statement No. 4, p. 6, lines 9-12.

income and the ability to pay household expenses among various income ranges. Ultimately, the conclusion of Mr. Colton's analysis is that unfortunately, yet not surprising, low-income individuals and households have been hit the hardest by the pandemic. They have indeed had greater challenges in maintaining employment and subsequently, being able to pay their household expenses, including utility bills.[6]

Q. SUMMARIZE MR. BRADY'S TESTIMONY REGARDING A COVID-19 ERP FOR UGI ELECTRIC.

A. Overall, Mr. Brady's testimony echoes Mr. Colton's and expresses general concern of the impact this rate proceeding may have on low-income ratepayers, particularly when continuing to deal with the economic difficulties created by the pandemic.[7] Specific to the COVID-19 ERP, he claims he would like to see measures similar to those adopted in the UGI Gas base rate proceeding (at Docket No. R-2019-3015162) which provided for arrearage forgiveness, extended payment arrangements, expanded hardship funding and additional LIURP funding among other things.[8] Ultimately, Mr. Brady recommends, "should a rate increase be granted, that the measures set forth in the Company's proposed Phase I ERP for its customers be part of any such rate increase."[9]

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[6] OCA Statement No. 4, p. 6, ln. 9 through p. 20, ln. 1.
[7] CEO Statement No. 1, p. 3, lines 17-21.
[8] CEO Statement No. 1. p. 4, lines 1-7.
[9] CEO Statement No. 1, p. 10, lines 17-19.

Q. DO YOU AGREE WITH MR. COLTON AND MR. BRADY THAT THE COMPANY SHOULD PURSUE A COVID-19 ERP?

A. No. I recommend that the proposed ERP Plan be disallowed. While I am sympathetic to the hardships many ratepayers are experiencing as a result of the pandemic, there are several reasons why I do not believe UGI Electric should be granted a COVID-19 ERP in this proceeding. First, more and more Pennsylvanians are becoming vaccinated and the economy is slowly being "re-opened" as evidenced by Governor Wolf's easing of restrictions with the goal of boosting the economy which is set to take effect on May 31, 2021.[10] Although Pennsylvania's current unemployment rate of 7.3% as of March 2021 is notably higher than the pre-pandemic level of around 4.6%, it is now well below the 16.2% unemployment rate at the height of the pandemic in April 2020.[11] Additionally, on May 14, 2021, the Pennsylvania Department of Labor & Industry announced the Extended Benefits program will be coming to an end due to the declining unemployment rate.[12] Further, there is speculation that workers are not returning to their previous jobs or accepting available jobs, driving an effort to restore the "work-search" rule for anyone attempting to apply for unemployment benefits within the Commonwealth.[13]

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10 https://www media.pa.gov/pages/health-details.aspx?newsid=1437 (Accessed May 17, 2021).
11 https://data.bls.gov/timeseries/LASST420000000000003 (Accessed May 17, 2021).
12 https://www media.pa.gov/Pages/Labor-and-Industry-Details.aspx?newsid=575 (Accessed May 18, 2021).
13 https://www.pennlive.com/news/2021/05/pa-gop-wants-to-restore-work-search-rule-for-anyone-applying-for-jobless-benefits html (Accessed May 18, 2021).

Second, I share the concerns offered by Commissioners Coleman and Yanora in their combined statement in response to the Petition of UGI Electric regarding implementation of a COVID-19 ERP. Commissioners Coleman and Yanora opined that the Company had not met its burden of proof to establish an ERP for its Electric Division or reopen its program for the Gas Division. Specifically, they expressed concern that no budget or cost-containment measures were proposed.[14] Mr. Colton speculates on the potential cost of the proposed ERP, yet he does not propose a specific ceiling on the funding or a program end date.[15] The lack of a defined total cap on funding is irresponsible and could lead to uncontrolled and unchecked spending, potentially putting a significant burden on ratepayers when it comes to cost recovery. Without a definitive program end date, many customers may not feel any urgency to pay their bills if assistance is perceived to be limitless.

Third, in a motion in response to the lifting of the utility service termination moratorium, Chairman Brown Dutrieuille issued a statement[16] detailing modifications to existing arrearage collection policies to be applied to all utilities for both residential and small business customers. These modifications offer flexible, generous, and reasonable repayment options for ratepayers which most significantly includes extended minimum repayment terms. In the Chairman's

[14] Statement of Commissioner John F. Coleman, Jr. and Commissioner Ralph V. Yanora, Docket Nos. P-2021-30323839 and P-2021-3023992, on March 25, 2021.
[15] OCA Statement No. 4, p. 26, lines 1-6.
[16] Motion of Chairman Gladys Brown Dutrieuille, Docket No. M-2020-3019244, on March 11, 2021.

belief that it is time to return to the regular collections process, she alludes to decreasing COVID-19 cases, deployment of vaccinations, improving employment statistics, and federal government aid including various stimulus payments as well as extended and enhanced unemployment benefits. Subsequently, the Chairman's motion received unanimous support by the remaining three Commissioners. Additionally, Commissioner Coleman provided a statement[17] in which he specifically affirmed his support of the Chairman's motion.

Finally, and perhaps most importantly, the recommendations from Mr. Colton and Mr. Brady to adopt an ERP were made after the program termination date of April 30, 2021 as proposed in UGI Electric's original COVID-19 ERP petition.[18] Furthermore, in its base rate case filing, the Company did not even propose an ERP.

Q. IF THE COMMISSION DECIDES TO APPROVE A COVID-19 ERP, WHAT RECOMMENDATIONS WOULD YOU MAKE?

A. If the Commission decides to approve a COVID-19 ERP for UGI Electric within the context of this base rate proceeding, I recommend the following:

- The Commission carefully consider and establish an appropriate total dollar limit used to fund the ERP.

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17 Statement of Commissioner John F. Coleman, Jr., Docket No. M-2020-3019244, on March 11, 2021.

18 Petition of UGI Utilities, Inc. – Electric Division, P-2021-3023992, p. 9, Footnote 8.

- The Commission determine and express a clear end date or termination date for the ERP.
- The ERP be fully funded by shareholders as opposed to the Company's ratepayers. The financial burden of this program should not be placed on the ratepayers who have been and intend to continue paying their electric bills in-full and on-time. In the event it is decided that shareholders are responsible for funding the ERP, the previous two recommendations are effectively irrelevant.

SELF-CERTIFICATION OF LOW-INCOME STATUS

Q. SUMMARIZE MR. COLTON'S TESTIMONY REGARDING SELF-CERTIFICATION OF LOW-INCOME STATUS.

A. Mr. Colton recommends that the Company introduce a tariff provision which defines a "confirmed low-income customer." He opines that the Company should specifically state that it will accept self-certification of low-income status for purposes of identifying "confirmed low-income customers" in the same fashion that it is required to be accepted by the UGI gas affiliates.[19]

[19] OCA Statement No. 4, p. 4, lines 15-22.

Q. DO YOU AGREE WITH MR. COLTON'S RECOMMENDATION THAT UGI ELECTRIC SHOULD ACCEPT SELF-CERTIFICATION OF LOW-INCOME STATUS?

A. No. Although, I am slightly confused by Mr. Colton's recommendation. He cites to 52 PA Code §54.72 where a "confirmed low-income residential account" is defined as "Accounts where the EDC has obtained information that would reasonably place the customer in a low-income designation."[20] He then recommends that the new tariff provision *should* reflect this PUC definition. However, Mr. Colton states, "UGI Electric should specifically state that it will accept self-certification of low income status…" and, "UGI Electric should not be allowed to modify the PUC's regulations by internal procedures which are in conflict with the regulation."[21] These appear to be conflicting statements and I am uncertain as to whether Mr. Colton is recommending the Company accept purely self-certification of low income or whether the Company should obtain information that would reasonably place the customer in a low-income status as the definition he cites to dictates.

Additionally, While I am not opposed to a tariff provision defining a "confirmed low-income customer" as Mr. Colton recommends, I am opposed to customers being self-certified as such. Self-certification could potentially lead to non-low-income customers exploiting the opportunity and running up additional

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[20] OCA Statement No. 4, p. 54, lines 19-21.
[21] OCA Statement No. 4, p. 55, lines 8-16.

costs for those ratepayers who do pay their bills in full and on time. It is imperative to prevent abuse of any type of low-income program to preserve funding for those who are truly in need and prevent unnecessary burden of additional cost to ratepayers.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

I&E Statement No. 1-SR
Witness: John Zalesky
NON-PROPRIETARY

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

UGI UTILITIES, INC. – ELECTRIC DIVISION

Docket No. R-2021-3023618

Surrebuttal Testimony

of

John Zalesky

Bureau of Investigation & Enforcement

Concerning:

OPERATING AND MAINTENANCE EXPENSES

TAXES

CASH WORKING CAPITAL

TABLE OF CONTENTS

INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is John Zalesky. My business address is Pennsylvania Public Utility Commission (Commission or PUC), Commonwealth Keystone Building, 400 North Street, Harrisburg, PA 17120.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Pennsylvania Public Utility Commission in the Bureau of Investigation and Enforcement (I&E) as a Fixed Utility Financial Analyst.

Q. ARE YOU THE SAME JOHN ZALESKY WHO SUBMITTED I&E STATEMENT NO. 1 AND I&E EXHIBIT NO. 1?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of UGI Utilities, Inc. – Electric Division (UGI Electric or Company) witnesses Stephen F. Anzaldo,[1] Eric W. Sorber,[2] Vivian K. Ressler,[3] and Nicole M. McKinney.[4]

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[1] UGI Electric Statement No. 2-R.
[2] UGI Electric Statement No. 3-R.
[3] UGI Electric Statement No. 4-R.
[4] UGI Electric Statement No. 9-R.

Q. DOES YOUR SURREBUTTAL TESTIMONY INCLUDE AN ACCOMPANYING EXHIBIT?

A. Yes. I&E Exhibit No. 1-SR accompanies this surrebuttal testimony. Additionally, I refer to my direct testimony and its accompanying exhibit.

Q. HAS UGI ELECTRIC UPDATED ITS REVENUE INCREASE REQUEST?

A. No. However, the Company has revised individual components of its revenue requirement request to support an increase of $9,028,000 as opposed to its requested $8,709,000. The Company also revised cash working capital, electric plant in service, customer deposits, materials and supplies, weighted average cost of debt, accumulated depreciation, and numerous other items.[5]

Q. PLEASE SUMMARIZE YOUR ADJUSTMENTS AS CONTAINED IN THIS SURREBUTTAL TESTIMONY.

A. The following table summarizes my recommended adjustments:

[5] UGI Electric Statement No. 2-R, pp. 3-6 and UGI Electric Exhibit A - FPFTY (Rebuttal).

	Updated Company Claim	Updated I&E Recommended Allowance	Updated I&E Adjustment
O&M Expenses and Taxes:			
Rate Case Expense	$420,000	$279,667	($140,333)
Uncollectibles	$1,854,000	$1,683,667	($170,333)
COVID-19 Related Costs	$234,000	$0	($234,000)
PA and Local Use Taxes	$80,000	$59,689	($20,311)
Allocated Stock Options and Restricted Stock Awards	$248,000	$0	($248,000)
Vegetation Management	$3,476,766	$3,238,742	($238,024)
Company-Owned Service Transition Program	$458,000	$224,420	($233,580)
Total O&M and Tax Expense Adjustments			**($1,284,581)**
Rate Base Adjustments:			
Cash Working Capital	$7,718,000	$7,629,000	($89,000)
Total Rate Base Adjustments			**($89,000)**

Q. HAS THE COMPANY ACCEPTED ANY OF YOUR RECOMMENDED ADJUSTMENTS FROM DIRECT TESTIMONY?

A. Yes. The Company has accepted my recommended adjustments for Payroll Taxes – FICA,[6] Payroll Taxes – SUTA,[7] and Miscellaneous General Expenses – Association Dues - EEI.[8]

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6 UGI Electric Statement No. 2-R, p. 3 and UGI Electric Statement No. 9-R, p. 3.
7 UGI Electric Statement No. 2-R, p. 3 and UGI Electric Statement No. 9-R, p. 3.
8 UGI Electric Statement No. 2-R, p. 4 and UGI Electric Statement No. 4-R, pp. 30-31.

SUMMARY OF OVERALL UPDATED I&E POSITION

Q. WHAT IS I&E'S TOTAL UPDATED RECOMMENDED REVENUE REQUIREMENT?

A. I&E's total recommended revenue requirement for the Company is $92,229,000. This recommended revenue requirement represents an increase of $5,115,000 to the Company's updated present rate revenues of $87,114,000. This total recommended allowance incorporates the adjustments made in this testimony to O&M expenses, taxes, and cash working capital, and those recommended adjustments made in the testimonies of I&E witnesses Anthony Spadaccio[9] and Ethan Cline.[10] The following table summarizes the I&E surrebuttal position:

UGI Electric		TABLE I			
R-2021-3023618		INCOME	SUMMARY		
$ in Thousands					
	9/30/22	INVESTIGATION & ENFORCEMENT			
	Proforma	[--]			
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	$	$	$	$	$
Operating Revenue	87,114	0	87,114	5,115	92,229
Deductions:					
O&M Expenses	70,087	-1,284	68,803	80	68,883
Depreciation	7,128	-90	7,038		7,038
Taxes, Other	5,909	0	5,909	297	6,206
Income Taxes:					
Current State	-333	140	-193	473	280
Current Federal	-504	266	-238	896	658
Deferred Taxes	827	0	827		827
ITC	0	0	0		0
Total Deductions	83,114	-968	82,146	1,746	83,892
Income Available	4,000	968	4,968	3,369	8,337
Rate Base	132,394	-1,715	130,679	0	130,679
Rate of Return	3.02%		3.80%		6.38%

[9] I&E Statement No. 2-SR.
[10] I&E Statement No. 3-SR.

RATE CASE EXPENSE

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY CONCERNING RATE CASE EXPENSE.

A. In direct testimony, I recommended that the Company's rate case expense be normalized over a period of 36 months (three years) resulting in an annual expense of $279,667 [($839,000 ÷ 36 months) x 12 months], or a reduction of $140,333 ($420,000 - $279,667) to the Company's claim.[11]

Q. DID ANY COMPANY WITNESS RESPOND TO YOUR RECOMMENDATION?

A. Yes. Company witness Stephen F. Anzaldo responded to my recommendation.[12]

Q. SUMMARIZE MR. ANZALDO'S RESPONSE.

A. Mr. Anzaldo asserts that the frequency of past rate cases is not a predictor of the frequency of future rate cases. He continues to estimate that the Company will file again in two years due to future capital requirements, continued information system improvements, and the cost of other improvements identified in the Company's Long-Term Infrastructure Improvement Plan (LTIIP). He further references inflation and reaching the 5% DSIC maximum.

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[11] I&E Statement No. 1, pp. 4-8.
[12] UGI Electric Statement No. 2-R, pp. 10-11.

Q. WHAT IS YOUR RESPONSE TO MR. ANZALDO'S ARGUMENT?

A. Historic filing frequency is the best indicator of future filing frequency. The Commission historically has agreed with this approach as referenced in various cases and outlined in my direct testimony.[13] As stated in my direct testimony, the PPL Electric case is a good example of how stated future intentions to file a rate case are less reliable than historic filing frequency when predicting a future filing.[14] Additionally, the Commission has agreed with I&E's recommendations based on historic filing frequency in base rate cases for Emporium Water Company, City of DuBois, and Columbia Gas.[15]

Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION?

A. No. I continue to recommend an allowance of $279,667, or a reduction of $140,333 to the Company's claim ($420,000 - $279,667).

<u>UNCOLLECTIBLE ACCOUNTS EXPENSE</u>

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR UNCOLLECTIBLE ACCOUNTS EXPENSE.

A. In direct testimony, I recommended an allowance of $1,683,667 or a reduction of

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[13] *PA PUC v. Emporium Water Company*, Docket No. R-2014-2402324, p. 50 (Order Entered January 28, 2015); *PA PUC v. City of DuBois - Bureau of Water*, Docket No. R-2016-2554150, pp. 65-66 (Order Entered March 28, 2017); *PA PUC v. City of DuBois - Bureau of Water*, Docket No. R-2016-2554150, p. 13 (Order Entered May 18, 2017); *PA PUC v. Columbia Gas,* Docket No. R-2020-3018835, Opinion and Order, pp. 78-79 (Order Entered February 19, 2021).

[14] I&E Statement No. 1, pp. 7-8.

[15] I&E Statement No. 1, p. 8.

$169,333 ($1,853,000 - $1,683,667) to the Company's claim.[16] My recommendation was based on a change to the Company's claimed two-year normalization of the COVID-19 related regulatory asset balance (Adjustment #2) in favor of a three-year amortization in line with the historic filing frequency as described in the previous section.

Q. DID ANY COMPANY WITNESS RESPOND TO YOUR RECOMMENDATION?

A. Yes. Company witness Vivian K. Ressler disagrees with my recommendation.[17]

Q. SUMMARIZE MS. RESSLER'S RESPONSE.

A. Ms. Ressler agrees with my recommendation to amortize, rather than normalize, the regulatory asset associated with uncollectibles expense. Nevertheless, Ms. Ressler continues to recommend a two-year recovery period which is in line with the Company's expectation to file a base rate case in two years.

Q. WHAT IS YOUR RESPONSE TO MS. RESSLER'S ARGUMENT?

A. I accept Ms. Ressler's change to amortization from normalization of the regulatory asset. However, I continue to recommend a three-year recovery period as it is in

[16] I&E Statement No. 1, pp. 9-13.
[17] UGI Electric Statement No. 4-R, pp. 15-19.

line with the Company's historic filing frequency as noted in the previous section of my testimony.

Q. DID THE COMPANY UPDATE ITS CLAIM IN REBUTTAL TESTIMONY?

A. Yes. The Company has updated its uncollectible expense to $1,854,000[18] from $1,853,000[19] based on increased adjusted revenues.[20]

Q. DO YOU AGREE WITH THE COMPANY'S UPDATED CLAIM?

A. No. Because I continue to disagree with the claimed two-year normalization period, I also disagree with the Company's updated claim.

Q. WHAT DO YOU RECOMMEND?

A. I continue to recommend an allowance of $1,683,667, or a reduction of $170,333 ($1,854,000 - $1,683,667) to the Company's updated claim of $1,854,000 based on my original recommendation in direct testimony and summarized above.

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18 UGI Electric Exhibit A – Fully Projected (REBUTTAL), D-1 and D-2.
19 UGI Electric Exhibit A – Fully Projected, D-1 and D-2.
20 UGI Electric Exhibit A – Fully Projected (REBUTTAL), D-11, line 6, column 3.

COVID-19 RELATED COSTS

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR COVID-19 RELATED COSTS.

A. In direct testimony, I recommended disallowance of the Company's $220,000 claim in its entirety.[21] The Commission should provide direction on a statewide basis. Further, inclusion of late fees and other miscellaneous revenues was not explicitly permitted and therefore inappropriate to be recovered from ratepayers. Moreover, utilities should not be completely insulated from all costs associated with the pandemic. Finally, the Company has not sought or received special permission to defer COVID-19 related costs.

Q. HAS THE COMPANY UPDATED ITS CLAIM?

A. Yes. The Company updated its claim to reflect additional costs associated with vehicle rentals for an annual increase of $14,500.[22] Accordingly, the Company's updated claim is $234,000.[23]

Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION?

A. Yes. Company witness Vivian K. Ressler responded to my recommendation.[24]

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21 I&E Statement No. 1, pp. 13-16.
22 UGI Electric Statement No. 2-R, p. 6.
23 UGI Electric Exhibit A – Fully Projected (REBUTTAL), D-12, p. 1 and D-3, p. 1.
24 UGI Electric Statement No. 4-R, pp. 19-26.

Q. SUMMARIZE MS. RESSLER'S RESPONSE.

A. Ms. Ressler notes that the Company has increased its claim by $14,500 to $234,000 to reflect additional costs associated with vehicle rentals not previously included. The Company notes that it is seeking to recover these costs at the earliest possible opportunity. Ms. Ressler recommends that my position be wholly rejected because the tracking of these expenses was allowed so that companies might seek recovery so long as the expenses are just and reasonable as determined by the Commission. Ms. Ressler further notes that the Company incurred specific costs that it otherwise would not have incurred absent the COVID-19 pandemic. Ms. Ressler specifically notes that these costs are not built into the future test year (FTY) and fully projected future test year (FPFTY) as ongoing expenses, but rather are only as a result of the COVID-19 pandemic. Further, she asserts that the Secretarial Letter explicitly directed utilities to track incremental COVID-19 costs. Finally, she states that under normal circumstances the Company charges late fees in order to recover the cost of carrying customer balances for an extended period of time. Because of the pandemic the Company has lost these revenues, and therefore, she opines, it is appropriate for the Company to be reimbursed accordingly.

Q. DO YOU AGREE WITH MS. RESSLER'S RESPONSE?

A. No. I continue to recommend disallowance of these expenses in their entirety. The Commission has not indicated these expenses are appropriate for regulatory asset and deferral treatment or whether these historically incurred expenses should be recovered at all. I do not dispute that the Commission directed utilities to *track* incremental COVID-19 costs but note that the Commission has explicitly stated that its "Secretarial Letter does not grant authorization for utilities to defer any other potential COVID-19 related expenses."[25]. Finally, these are unprecedented times that have far-reaching consequences. Many individuals, families, and business have suffered significant losses economically and otherwise. While I appreciate the Company's preference to recover these past expenses, it would be inappropriate for UGI Electric to share no responsibility for the increased historic costs associated with the pandemic. Similar to what I stated in my direct testimony, regulated utilities should not be fully insulated from all costs associated with the pandemic, particularly in UGI Electric's case where the updated total amount requested for deferral of $467,000[26] *prior to normalization* is less than 0.5% of the updated total claimed present rate revenues in the Company's rebuttal testimony of $96,142,000.[27]

Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION?

A. Yes. I recommend disallowance of the updated claim of $234,000 in its entirety.

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[25] Docket No. M-2020-3019775 *COVID-19 Cost Tracking and Creation of Regulatory Asset*, p. 2.
[26] UGI Electric Exhibit A – Fully Projected (REBUTTAL), D-12.
[27] I&E Statement No. 1, p. 16 and UGI Electric Exhibit A – Fully Projected (REBUTTAL), Schedule A-1.

PA AND LOCAL USE TAXES

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR PA AND LOCAL USE TAXES.

A. In direct testimony, I recommended an allowance of $25,686 or a reduction of $54,314 ($80,000 - $25,686) to the Company's claim.[28] The Company provided local tax bills to support only **[BEGIN PROPRIETARY]** [redacted] **[END PROPRIETARY]** of its claim as outlined in its response to I&E-RE-6-D and summarized by me.[29] Then, I applied the Company's Gross Plant Allocation Factor of **[BEGIN PROPRIETARY]** [redacted] **[END PROPRIETARY]** to calculate my recommendation of **[BEGIN PROPRIETARY]** [redacted] **[END PROPRIETARY]** In short, the Company's claim should reflect only costs that it can reasonably justify.

Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION?

A. Yes. Company witness Nicole M. McKinney responded to my recommendation.[32]

Q. SUMMARIZE MS. MCKINNEY'S RESPONSE.

A. Ms. McKinney disagrees with my proposed adjustment because it does not include property taxes from the Company's Empire Yard Corporate Center and taxes

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28 I&E Statement No. 1, pp. 19-20.
29 I&E Exhibit No. 1, Schedule 5 - PROPRIETARY and I&E Exhibit No. 1, Schedule 6 - PROPRIETARY.
30 I&E Exhibit No. 1, Schedule 5, p. 2 - PROPRIETARY.
31 I&E Exhibit No. 1, Schedule 6 - PROPRIETARY.
32 UGI Electric Statement No. 9-R, pp. 3-5.

related to stormwater fees. The Company inadvertently omitted providing copies of these items in response to I&E-RE-6D(A). Ms. McKinney simulated my adjustment with the updated information in UGI Electric Exhibit NMM-1R to calculate what my updated recommendation should be, $62,681. Despite the updated information, Ms. McKinney has not updated the Company's claim because, "historic amounts are not necessarily a precise indicator of what future tax amounts may be."[33]

Q. DO YOU AGREE WITH MS. MCKINNEY'S RESPONSE?

A. No. I acknowledge the updated information as provided in a supplementary response to I&E-RE-6-D(A)[34] for stormwater fees and Empire Yard allocation. Accordingly, I have updated my position in a slightly different manner from Ms. McKinney's calculation in UGI Electric Exhibit NMM-1R.

Q. SUMMARIZE YOUR UPDATED RECOMMENDATION.

A. I recommend an updated allowance of $59,689, or a reduction of $20,311 ($80,000 - $59,689) to the Company's claim for PA and Local Use Taxes. This amount is composed of **[BEGIN PROPRIETARY]** [redacted] **[END PROPRIETARY]** for property taxes[35] and **[BEGIN PROPRIETARY]** [redacted]

[33] UGI Electric Statement No. 9-R, p. 5.
[34] UGI Electric Exhibit NMM-3R - PROPRIETARY.
[35] I&E Exhibit No. 1-SR, Schedule 1, p. 1 - PROPRIETARY.

[END PROPRIETARY] for stormwater fees[36] as summarized in I&E Exhibit No. 1-SR, Schedule 1.

ALLOCATED STOCK OPTIONS AND RESTRICTED STOCK AWARDS

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR ALLOCATED STOCK OPTIONS AND RESTRICTED STOCK AWARDS.

A. In direct testimony, I recommend disallowance of the Company's total claim of $203,822 for allocated stock options and restricted stock awards.[37] My recommendation was based on the fact that stock options and stock awards are forms of incentive compensation where the value is based on the achievement of financial goals, the cost of which should be borne by shareholders and not ratepayers.

Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION?

A. Yes. Company witness Vivian K. Ressler responded to my recommendation.[38]

Q. SUMMARIZE MS. RESSLER'S RESPONSE.

A. Ms. Ressler disagrees with my position because incentive compensation programs should be evaluated as a whole when determining whether the plan goals benefit

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[36] I&E Exhibit No. 1-SR, Schedule 1, p. 2 - PROPRIETARY.
[37] I&E Statement No. 1, pp. 21-22.
[38] UGI Electric Statement No. 4-R, pp. 26-30.

customers as indicated by the Commission in the previous rate case. Additionally, she disagrees that only shareholders benefit from the achievement of financial goals that comprise the stock option and stock awards programs citing attractiveness to potential investors to supply needed capital for operations through the capital markets. Therefore, she opines it is appropriate for ratepayers to bear the cost of these incentive compensation programs because they bear other costs from which they benefit, directly or indirectly. Further, these incentive compensation programs act as an incentive to retain employees and reduce transition costs. Ms. Ressler also notes that Columbia Gas' withdrawal of its stock compensation portion of its incentive compensation program should be given no weight. Furthermore, absent these types of compensation, the Company's base salaries would likely have to be higher. Moreover, she claims that UGI Electric compensates its employees consistent with industry standards. Finally, Ms. Ressler points out the discrepancy between OCA witness Morgan's recommendation and my recommendation asserting that my calculation is flawed because it is not limited to the distribution-only share of incentive compensation.[39]

Q. DO YOU AGREE WITH MS. RESSLER'S RESPONSE?

A. No. The value of stock options and restricted stock awards are based on the achievement of financial goals which are shareholder-oriented goals. Incentive

[39] UGI Electric Statement No. 4-R, p. 30.

compensation programs permitted for recovery from ratepayers should be directly aligned with ratepayer-oriented goals such as providing safe and reliable service. Additionally, I did not recommend that stock options and restricted stock awards be removed from compensation plans only that these forms of compensation should not be funded by ratepayers. Further, Columbia Gas' withdrawal of incentive compensation in its last base rate case would seem to indicate that such a claim was not warranted. Finally, I acknowledge the difference between OCA witness Morgan's recommendation and my recommendation in direct testimony and will update my recommendation accordingly.

Q. HAVE YOU UPDATED YOUR CALCULATION OF THE COMPANY'S CLAIM?

A. Yes. I originally derived the Company's claim in my direct testimony from UGI Electric's responses to interrogatories.[40] Upon studying the testimony of OCA witness Lafayette K. Morgan,[41] I am updating my calculation of the Company's claim accordingly to more accurately reflect the distribution-only portion.

Q. SUMMARIZE YOUR UPDATED RECOMMENDATION.

A. Upon consideration of OCA witness Morgan's recommendation and Ms. Ressler's

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[40] I&E Statement No. 1, p. 21 and I&E Exhibit No. 1, Schedules 7, 8, and 9.

[41] OCA Statement No. 1, pp. 21-22 – CONFIDENTIAL and OCA Schedule LKM – 11, p. 1 – CONFIDENTIAL.

rebuttal testimony, I recommend an updated disallowance of $248,000 for stock options and restricted stock awards in its entirety.

Q. HOW DID YOU CALCULATE YOUR UPDATED RECOMMENDATION?

A. I added **[BEGIN PROPRIETARY]** [redacted] **[END PROPRIETARY]**

VEGETATION MANAGEMENT

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR VEGETATION MANAGEMENT.

A. In direct testimony, I recommended an allowance of $2,019,835 for vegetation management or a reduction of $1,456,931 ($3,476,766 - $2,019,835) to the Company's claim.[45] My recommendation was based on a three-year historic average of this expense. The 2018, 2019, and 2020 expense amounts were $2,011,036, $2,189,747, and $1,858,722, respectively.[46] These were significantly less than the FTY amount of $3,429,725 and the FPFTY claim of $3,476,766.

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[42] I&E Exhibit No. 1-SR, Schedule 2, p. 4 - PROPRIETARY.
[43] I&E Exhibit No. 1-SR, Schedule 2, p. 3 - PROPRIETARY.
[44] I&E Exhibit No. 1-SR, Schedule 2, p. 3 - PROPRIETARY.
[45] I&E Statement No. 1, pp. 23-24.
[46] I&E Exhibit No. 1, Schedule 10, pp. 2 and 3.

Further, the Company's explanation to increase funding for vegetation management by 85% in the FTY was unsupported. Therefore, I recommended the three-year historic average as the basis for my recommendation, calculated as follows: ($2,011,036 + $2,189,747 + $1,858,722) ÷ 3 = $2,019,835.

Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION?

A. Yes. Company witness Eric W. Sorber responded to my recommendation.[47]

Q. SUMMARIZE MR. SORBER'S RESPONSE.

A. Mr. Sorber disagrees with my use of a three-year historic average because it does not recognize acceleration of the program and known planning for expense changes. Mr. Sorber highlights the small variance between budget and actual expenses. He also demonstrates how the FTY claim is reasonable by pointing out how much has already been spent including a contract for line-mile work. Further, he explains that the FTY represents anticipated FPFTY costs.

Q. DO YOU AGREE WITH MR. SORBER'S RESPONSE?

A. I agree with most of Mr. Sorber's arguments and the evidence he presented in favor of a significantly increased vegetation management claim over historical amounts. Mr. Sorber reasonably justifies the FTY claim, but the FPFTY claim

[47] UGI Electric Statement No. 3-R, pp. 2-7.

appears to be overstated. According to UGI Electric EWS-1R CONFIDENTIAL, page 7, the total bid estimate for Fiscal Year 2021 is **[BEGIN PROPRIETARY]** [redacted] **[END PROPRIETARY]** as opposed to the Fiscal Year 2022 total bid estimate of **[BEGIN PROPRIETARY]** [redacted] **[END PROPRIETARY]**[48] Thus, the FPFTY claim is overstated by **[BEGIN PROPRIETARY]** [redacted] **[END PROPRIETARY]**

Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION?

A. Yes. I recommend an updated allowance of $3,238,742, or a reduction of $238,024 ($3,476,766 - $3,238,742) to the Company's claim for vegetation management.

<u>COMPANY-OWNED SERVICE TRANSITION PROGRAM</u>

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR THE COMPANY-OWNED SERVICE TRANSITION PROGRAM.

A. In direct testimony, I recommended an allowance of $90,537 or a reduction of $367,463 ($458,000 - $90,537) to UGI Electric's claim for the Company-owned service transition program.[49] My recommendation was based on the historic test year (HTY) 2020 actual cost of $90,537 as this appeared to be more reliable than the Company's FPFTY projection.[50]

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48 UGI Electric EWS-1R CONFIDENTIAL, p. 7.
49 I&E Statement No. 1, pp. 24-26.
50 I&E Exhibit No. 1, Schedule 11, p. 2.

Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION?

A. Yes. Company witness Eric W. Sorber responded to my recommendation.[51]

Q. SUMMARIZE MR. SORBER'S RESPONSE.

A. Mr. Sorber indicates that the ramp-up year of Fiscal Year 2019 and the COVID-19 impacted Fiscal Year 2020 made for artificially low amounts compared to anticipated program experience going forward. Mr. Sorber also gives an update on Company outreach, customer responses, and completed transferred services that support the Company's claim. Finally, Mr. Sorber proposes that if the Commission were to accept I&E's recommendation, the Company should be permitted to create a regulatory asset that would track the variances in this program and enable the Company to recover/refund the variances to ratepayers in subsequent base rate cases.

Q. WHAT IS YOUR RESPONSE TO MR. SORBER?

A. Although the Company has significantly picked up the pace of the program, it is not certain that the Company will meet its goals. By way of background, the Company projected 500 transfers in the FTY based on its projections from its prior base rate case as mentioned in response to I&E-RE-50-D-2.[52] However, Mr. Sorber projects only 245 transfers for Fiscal Year 2021.[53] The HTY amount does

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[51] UGI Electric Statement No. 3-R, pp. 7-12.
[52] I&E Exhibit No. 1, Schedule 11, p. 3.
[53] UGI Electric Statement No. 3-R, p. 9.

not appear to be indicative of costs going forward. Therefore, I am updating my recommendation in consideration of this new information.

Furthermore, I reject the use of a regulatory asset for tracking of these costs. It is inappropriate to incorporate a regulatory asset account for anticipated routine operating expenses.

Q. PLEASE SUMMARIZE YOUR UPDATED RECOMMENDATION.

A. I recommend an updated allowance of $224,420, or a reduction of $233,580 ($458,000 - $224,420) to the Company's claim for the company-owned service transition program. My updated recommendation is based on Mr. Sorber's updated projection of 245 transfers in the FTY. I used this amount for the updated FPFTY recommendation as it is more reliable and reasonable than the HTY actual amount. Further, it is unclear how successful the Company will be with transfers in the FPFTY since the program is only now starting to make strides toward its projections from the prior case.

Q. HOW DID YOU CALCULATE YOUR UPDATED RECOMMENDATION?

A. I calculated my recommendation by multiplying the average cost of claimed transfers of $916 ($458,000 ÷ 500) by the updated projected FTY transfers of 245 for a recommendation of $224,420 ($916 x 245).

CASH WORKING CAPITAL

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR CASH WORKING CAPITAL (CWC).

A. In direct testimony, I recommended an allowance of $7,470,000 or reduction of $187,000 ($7,657,000 - $7,470,000) to the Company's claim.[54] My recommendation included modification of the Company's claim based on my recommended adjustments to O&M expenses and taxes as discussed in my direct testimony and an adjustment due to a Company error.[55]

Q. DID ANY COMPANY WITNESS RESPOND TO YOUR RECOMMENDATION?

A. Yes. Company witness Stephen F. Anzaldo disagrees with my recommendation.[56]

Q. HAS THE COMPANY UPDATED ITS CWC CLAIM?

A. Yes. The Company has updated its claim from $7,657,000 to $7,718,000 to reflect all of its adjustments and their impact on CWC. This includes inadvertent errors totaling $21,000 identified in my direct testimony.

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54 I&E Statement No. 1, pp. 27-30.
55 I&E Exhibit No. 1, Schedule 14.
56 UGI Electric Statement No. 2-R, pp. 15-18.

<u>Proposed I&E Adjustments to O&M</u>

Q. DO YOU HAVE AN UPDATE FOR THE I&E RECOMMENDED ADJUSTMENTS TO O&M EXPENSES?

A. Yes. As stated in direct testimony, all O&M expense adjustments that are cash-based expense claims are included when determining the Company's overall CWC requirement. Therefore, CWC is being modified to reflect my updated O&M adjustments as discussed above. I updated the Company's electronic CWC files as shown on UGI Electric Exhibit A – Fully Projected (Rebuttal), Schedule C-4 for each recommended adjustment.[57]

Q. SUMMARIZE WHERE EACH OF THE RECOMMENDED O&M EXPENSE ADJUSTMENTS, AS UPDATED FOR SURREBUTTAL TESTIMONY, ARE REFLECTED IN THE CWC COMPUTATION.

A. **<u>Pro Forma O&M Expense</u>:**

The following recommended adjustments made by me above are reflected in the Pro Forma O&M Expense as downward adjustments to line 15 of the Company's updated Schedule C-4, p. 2:[58]

[57] I&E Exhibit No. 1-SR, Schedule 3, pp. 1-2.
[58] I&E Exhibit No. 1-SR, Schedule 3, p. 2.

Other Expenses	Reduction
Rate Case Expense	$140,333
COVID-19 related costs	$234,000
PA and Local Use Tax	$20,311
Allocated Stock Options and Restricted Stock Awards	$248,000
Vegetation Management	$238,024
Company-Owned Service Transition Program	$233,580
Total	**$1,114,248**

Uncollectible Expense:

I recommended an adjustment to Uncollectible Expense of $170,333, which is reflected as a reduction to Uncollectible Expense on UGI Electric Schedule C-4, p. 2, line 16.[59]

Q. BASED ON THE ABOVE TESTIMONY, WHAT IS YOUR UPDATED RECOMMENDED ALLOWANCE FOR CWC?

A. Based on all of my recommended adjustments as discussed above, my updated recommendation for CWC is an allowance of $7,629,000, or a reduction of $89,000 ($7,718,000 - $7,629,000) to the Company's updated claim.[60]

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[59] I&E Exhibit No. 1-SR, Schedule 3, p. 2.

[60] I&E Exhibit No. 1-SR, Schedule 3, p. 1, ln. 5.

Q. IS YOUR RECOMMENDED CWC ALLOWANCE A FINAL RECOMMENDATION?

A. No. Similar to what I said in direct testimony, all adjustments to the Company's claims must be continually brought together in the Administrative Law Judge's Recommended Decision and again in the Commission's Final Order. This process, known as iteration, effectively prevents the determination of a precise calculation until such time as all adjustments have been made to the Company's claim.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.

I&E Exhibit No. 1-SR
Witness: John Zalesky
NON-PROPRIETARY

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

UGI UTILITIES, INC. – ELECTRIC DIVISION

Docket No. R-2021-3023618

Exhibit to Accompany

the

Surrebuttal Testimony

of

John Zalesky

Bureau of Investigation & Enforcement

Concerning:

OPERATING AND MAINTENANCE EXPENSES

TAXES

CASH WORKING CAPITAL

I&E Exhibit No. 1-SR
Schedule 2
Page 1 of 4
NON-PROPRIETARY

UGI Utilities, Inc. - Electric Division
Before the Pennsylvania Public Utility Commission
Fully Projected Future Period - 12 Months Ended September 30, 2022
($ in Thousands)

-- I&E MODIFIED --

Working Capital

Line No	Description	[1] Fully Projected 9/30/2022	[2] Reference
1	Working Capital for O & M Expense	$ 5,727	C-4, Page 2
2	Interest Payments	(224)	C-4, Page 7
3	Tax Payment Lag Calculations	165	C-4, Page 8
4	Prepaid Expenses	1,962	C-4, Page 9
5	Total Cash Working Capital Requirements	$ 7,629	

UGI Utilities, Inc. - Electric Division
Before the Pennsylvania Public Utility Commission
Fully Projected Future Period - 12 Months Ended September 30, 2022
($ in Thousands)

-- I&E MODIFIED --

Summary of Working Capital

Line #	Description	[1] Reference	[2] Test Year Expenses	[3] Factor	[4] Number of (Lead) / Lag Days [2] * [3]	[5] Totals
	WORKING CAPITAL REQUIREMENT					
1	REVENUE LAG DAYS	Page 3				60.14
2	EXPENSE LAG DAYS	Page 4				
3	Payroll	Sch D-7	$ 5,911	12.00	$ 70,926	
4	Purchased Power Costs	Sch D-6	41,603	30.63	1,274,448	
5	Other Expenses	L 19 - L 2 to L 4	19,777	30.70	607,141	
6	Total	Sum (L 3 to L 5)	$ 67,290		$ 1,952,515	
7	O & M Expense Lag Days	L6, C 4 / C 2				29.02
8	Net (Lead) Lag Days	L 1 - L 7				31.12
9	Operating Expenses Per Day	L 6, C 2 / 365				$ 184
10	Working Capital for O & M Expense	L 8 * L 9				$ 5,727
11	Interest Payments	Page 7				(224)
12	Tax Payment Lag Calculations	Page 8				165
13	Prepaid Expenses	Page 9				1,962
14	Total Working Capital Requirement	Sum (L 10 to L 13)				$ 7,629
15	Pro Forma O & M Expense		$ 68,973	JZ updated O&M adjustments excluding uncollectibles		
	Less:					
16	Uncollectible Expense		1,684	JZ uncollectible adjustment		
17	Sub-Total		1,684			
18	Pro Forma Cash O&M Expense		$ 67,290			

I&E Statement No. 2-SR
Witness: Anthony Spadaccio

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

UGI UTILITIES, INC. – ELECTRIC DIVISION

Docket No. R-2021-3023618

Surrebuttal Testimony

of

Anthony Spadaccio, CRRA

Bureau of Investigation & Enforcement

Concerning:

Rate of Return

Emergency Relief Program

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INTRODUCTION OF WITNESS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Anthony Spadaccio. My business address is Pennsylvania Public Utility Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg, Pa 17120.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Pennsylvania Public Utility Commission (Commission) in the Bureau of Investigation & Enforcement (I&E) as a Fixed Utility Financial Analyst.

Q. ARE YOU THE SAME ANTHONY SPADACCIO WHO IS RESPONSIBLE FOR THE DIRECT TESTIMONY CONTAINED IN I&E STATEMENT NO. 2 AND THE SCHEDULES IN I&E EXHIBIT NO. 2?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to address statements made by UGI Utilities, Inc. – Electric Division (UGI Electric or Company) witness Paul R. Moul in his rebuttal testimony (UGI Electric Statement No. 5-R) regarding rate of return topics including the cost of long-term debt, the cost of common equity, and the overall fair rate of return, which will be applied to the Company's rate base. In addition, I will address the Emergency Relief Program (ERP) as discussed in rebuttal testimony by Company witnesses Mr. Christopher R. Brown (UGI Electric Statement No. 1-R) and Mr. Daniel V. Adamo (UGI Electric Statement No. 10-R).

<u>SUMMARY OF MR. MOUL'S REBUTTAL TESTIMONY</u>

Q. SUMMARIZE MR. MOUL'S RESPONSE IN REBUTTAL TESTIMONY TO YOUR RECOMMENDATIONS MADE IN DIRECT TESTIMONY.

A. First, Mr. Moul provides an update to the Company's cost of long-term debt. He then disputes my recommendations regarding an appropriate proxy group, my reliance on and my formulaic application of the Discounted Cash Flow (DCF), the DCF growth rate, disallowance of his leverage adjustments to the DCF and beta of his Capital Asset Pricing Model (CAPM). Further, Mr. Moul disagrees with the appropriate risk-free rate to use and my recommendation to reject his size adjustment used in his CAPM analysis.

<u>UPDATED COST RATE OF LONG-TERM DEBT</u>

Q. SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING THE COMPANY'S UPDATED COST OF LONG-TERM DEBT.

A. Mr. Moul explains that since the original filing, the Company has been able to gain more favorable terms regarding the planned $175 million of new long-term debt. The improved terms come in the form of both a reduced repayment period and reduced interest rates. The effect of these changes to the long-term debt issuances are a reduction in the overall cost of long-term debt from the originally filed 4.25% to 4.07% for the Fully Projected Future Test Year (FPFTY). This ultimately reduces the Company's overall claimed rate of return from 7.57% to 7.49%.[1]

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S UPDATED COST OF LONG-TERM DEBT?

A. I recommend using the Company's updated long-term debt cost rate of 4.07% for the FPFTY. This cost of debt is reasonable, and the downward trend is beneficial to ratepayers.

<u>PROXY GROUP</u>

Q. SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING YOUR PROXY GROUP.

A. Although Mr. Moul and I have a few disagreements regarding our proxy group criteria, the most significant is that he believes using the percentage of revenue as a criterion for a proxy group is less desirable than using the percentage of electric assets to total assets. He alleges that the percentage of assets is a more appropriate criterion because the margins of utility-based activities is not comparable to that of non-utility business segments.[2]

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[1] UGI Electric Statement No. 5-R, p. 9, lines 1-14.
[2] UGI Electric Statement No. 5-R, p. 9, ln. 16 through p. 12, ln. 4.

Q. DO YOU AGREE WITH MR. MOUL'S ASSERTION THAT THE PERCENTAGE OF ELECTRIC UTILITY ASSETS TO TOTAL ASSETS IS A MORE APPROPRIATE CRITERION?

A. No. Calculating the percentage of utility assets that make up the total assets of a company is not always a reliable way of determining if a business is primarily a regulated utility. Assets are accounted for at the original cost minus depreciation, which means that the value of an asset depends on its age. Therefore, it is possible for the regulated utility segment of a company to predominately have assets that are depreciated. Although a utility may have assets that are significantly depreciated, it does not always indicate the level of business a company does. A parent company can have most of its utility assets depreciated, but still do more business as a utility than as another business.

Another reason that the percentage of utility business is not always accurately represented by using the percentage of utility assets to total assets is that there are differences between businesses in the amount of capital needed. A utility with all new equipment may need a large level of assets to produce a small level of cash flow while another business may need only a small amount of assets to produce a large level of cash flow. Therefore, comparing the assets of an electric utility segment to the total assets of a company is not an appropriate criterion as it could be misleading.

Q. MR. MOUL ARGUES THAT YOUR CRITERION THAT 50% OR MORE OF REVENUE MUST BE GENERATED FROM THE ELECTRIC UTILITY INDUSTRY FOR INCLUSION IN THE PROXY GROUP IS NOT APPROPRIATE. DO YOU AGREE?

A. No. Revenues represent the percentage of cash flow a company receives from each business line related to providing a good or service. If fewer than 50% of revenues come from the regulated electric business sector, the company is not comparable to the subject utility and does not provide a similar level of regulated business.

Q. OUT OF THE THREE COMPANIES THAT MR. MOUL USES IN HIS PROXY GROUP THAT YOU DO NOT USE IN YOURS, WHICH WERE EXCLUDED FOR FAILING TO MEET THE CRITERION THAT 50% OR MORE REVENUES MUST BE GENERATED FROM THE ELECTRIC UTILITY INDUSTRY?

A. As explained in my direct testimony,[3] only Exelon Corp. was excluded for not meeting my criterion that 50% or more revenues must be generated from regulated electric utility operations.

[3] I&E Statement No. 2, p. 9, ln. 9 through p. 10, ln. 3.

Q. EXPLAIN WHY THE REMAINING TWO COMPANIES THAT MR. MOUL USES THAT YOU DO NOT WERE EXCLUDED FROM YOUR PROXY GROUP.

A. Although Mr. Moul is correct in pointing out that Avangrid, Inc. is the acquiring company in the PNM Resources transaction, I excluded Avangrid, Inc. because the deal, which is worth over $8 billion, is so large that it is logical to think it will have a material impact on the Company's financial situation. Additionally, NextEra Energy was eliminated because it does not operate in a state that has a deregulated utility market.

Q. HAVE YOU CHANGED YOUR PROXY GROUP AS A RESULT OF MR. MOUL'S REBUTTAL TESTIMONY?

A. No. For the reasons discussed above, and in my direct testimony, I continue to believe that the percentage of revenues along with my other criteria are appropriate for determining a proxy group of companies that are similar to UGI Electric. Additionally, as Mr. Moul also recognizes,[4] some of our differences are due to the date of information used, which means that companies can be added or removed from each of our proxy groups depending on the timing of certain events such as merger and acquisition activity and the release of prior year financial information.

[4] UGI Electric Statement No. 5-R, p. 11, lines 2-4.

DISCOUNTED CASH FLOW

Q. SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING YOUR DCF ANALYSIS.

A. Mr. Moul agrees that results of a DCF analysis should be given weight but he asserts that use of multiple methods provides a superior foundation to determine the cost of equity. He compares the Distribution System Improvement Charge (DSIC) rate determined by the Commission in the Quarterly Earnings Summary Reports to the rates calculated using market data. Mr. Moul further disagrees with my results based on the outcomes of certain individual companies and disputes my growth rate analysis. Finally, he disagrees with my recommendation to reject his leverage adjustment.[5]

EXCLUSIVE USE OF THE DCF

Q. SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING YOUR USE OF THE DCF.

A. Mr. Moul explains that the use of more than one method provides a superior foundation for the cost of equity determination. He claims that the use of more than one method will capture the multiplicity of factors that motivate investors to commit their capital to a particular enterprise.[6]

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[5] UGI Electric Statement No. 5-R, p. 12, ln. 5 through p. 24, ln. 6.
[6] UGI Electric Statement No. 5-R, p. 12, lines 9-14.

Q. WERE ANY METHODS OTHER THAN THE DCF EMPLOYED IN YOUR ANALYSIS?

A. Yes. Although my recommendation was based primarily on the results of my DCF analysis, I also employed the CAPM as a comparison. For the reasons discussed in my direct testimony, the DCF method is the most reliable.[7] I have considered the fact that no method can perfectly predict the return on equity, which is why I also use the CAPM as a comparison to the DCF. Although no one method can capture every factor that influences an investor, including the results of methods less reliable than the DCF does not make the end result more reliable or more accurate. I agree with Mr. Moul that a proper determination of the cost of equity should not consider only a single method. Where we disagree is to what extent one should rely on each method. In direct testimony, I cited several cases that illustrate the methodology I employed is consistent with the methodology historically used by the Commission in base rate proceedings as recently as 2017, 2018, 2020, and 2021.[8]

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[7] I&E Statement No. 2, p. 15, ln. 13 through p. 16, ln. 6.

[8] I&E Statement No. 2, p. 15, lines 5-11.

<u>DSIC RATE</u>

Q. SHOULD THE COMMISSION CONSIDER THE AUTHORIZED DSIC RATE ESTABLISHED IN THE QUARTERLY EARNINGS SUMMARY REPORTS AS AN APPROPRIATE MEASURE TO DETERMINE THE COST OF EQUITY IN THIS PROCEEDING?

A. No. It is my understanding that the Commission's authorized return on equity for DSIC purposes is set higher than the Commission staff-calculated return on equity as an incentive for companies to invest in improving or replace deteriorating infrastructure while reducing regulatory lag. Further, DSIC spending requires preapproval of eligible plant via a Long-Term Infrastructure Improvement Plan so there is little question as to the prudence of those expenditures.

<u>EVALUATING THE DCF BASED ON INDIVIDUAL RESULTS</u>

Q. SUMMARIZE MR. MOUL'S RESPONSE IN REBUTTAL TESTIMONY REGARDING THE RESULTS OF YOUR DCF.

A. Mr. Moul explains that when some results are unreasonable on their face, the application or the reliability of that method must be questioned. He points to the results of several of my companies and claims that they "clearly fail the reasonableness test." Mr. Moul attempts to support his argument by pointing out that I removed from my analysis the growth rates of three companies.[9]

[9] UGI Electric Statement No. 5-R, p. 13, ln. 20 through p. 14, ln. 13.

Q. WHAT IS YOUR RESPONSE TO MR. MOUL'S ATTEMPT TO DISAGGREGATE YOUR RESULTS?

A. Generally, to remove individual companies based solely on the results creates a biased overall result and is tampering with market-based results. I chose criteria for my proxy group with the intention of creating a group that is comparable to UGI Electric, and then calculated a DCF from the companies that fit my criteria. Admittedly, I have removed the negative projected growth rates for Dominion Energy, FirstEnergy Corp., and PPL Corporation from my overall projected growth rate average. This increased the growth rate used in my DCF analysis from 3.93% to 4.78%. I removed these growth rates based on my professional judgement. While I understand the purpose of a proxy group is to smooth out abnormalities, I believe it is reasonable to expect a utility to have positive growth in order to continually provide adequate, efficient, safe, and reliable service.

Additionally, Mr. Moul points to the results of five individual companies, four of which are different from the other three discussed above, that he claims, "fail the reasonableness test."[10] The remaining individual results which Mr. Moul takes no issue with are the following:

[10] UGI Electric Statement No. 5-R, p. 14, lines 3-13.

Company	Dividend Yield	+	Growth Rate	=	Total
Ameren Corp	2.87%	+	6.73%	=	9.59%
American Electric Power Company Inc.	3.67%	+	6.08%	=	9.74%
CMS Energy Corp	3.05%	+	7.22%	=	10.26%
Duke Energy Corp New	4.51%	+	4.18%	=	8.69%
Entergy Corp.	3.87%	+	4.38%	=	8.25%
Eversource Energy	2.89%	+	6.60%	=	9.49%
Portland General Electric Company	3.75%	+	5.25%	=	9.00%
Xcel Energy Inc.	2.96%	+	6.10%	=	9.06%
Average					9.26%

As can be seen, all but one of these results are above my 8.58% return on equity recommendation, yet none of them come close to Mr. Moul's recommended 10.75%. Regardless, Mr. Moul only questions results that he deems to be too low and ignores results that could be perceived as too high.

<u>GROWTH RATE</u>

Q. SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING YOUR GROWTH RATES.

A. Mr. Moul again, as discussed in greater detail above, points to the fact that I excluded from my average the negative growth projections of three different companies. He suggests that I should have gone farther by removing five more companies, all with growth rates below 4%. After removing Consolidated Edison Inc., IDACORP Inc., Northwestern Corp., PPL Corporation, and Public Service

Enterprise Group Inc., he recalculates my average growth rate to be 5.70%, which of course produces a higher DCF result.[11]

Q. DO YOU AGREE WITH MR. MOUL'S REMOVAL OF THE FIVE COMPANIES WITH GROWTH RATES THAT ARE BELOW 4%?

A. No. Mr. Moul removes these companies from my growth rate average simply because he feels they are too low. Unlike my decision to remove the companies with negative growth forecasts, there is no objective rationale for removing these companies other than to inflate the DCF results.

<u>LEVERAGE ADJUSTMENT</u>

Q. SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING HIS LEVERAGE ADJUSTMENT.

A. First, Mr. Moul clarifies that his "leverage adjustment" is not a traditional "market-to-book" ratio adjustment. Next, he states that credit rating agencies do not measure the market-required cost of equity for a company, nor are they concerned with how it is applied in the rate-setting context. Rather, the credit rating agencies are only concerned with the interests of lenders and the timely payment of interest and principal by utilities. Then, Mr. Moul questions my references to prior Commission orders. Finally, Mr. Moul disagrees with my

[11] UGI Electric Statement No. 5-R, p. 16, lines 11-18.

claim that investors base their decisions on the book value of a company's debt and equity.[12]

Q. HAVE YOU CLAIMED THAT MR. MOUL'S ADJUSTMENT IS A MARKET-TO-BOOK RATIO ADJUSTMENT?

A. No. As I stated in direct testimony, "Mr. Moul does not propose to change the capital structure of the utility (a leverage adjustment), nor does he propose to apply the market-to-book ratio to the DCF model (a market-to-book adjustment)."[13]

Q. WHAT IS YOUR RESPONSE TO MR. MOUL'S REBUTTAL TESTIMONY CONCERNING CREDIT RATING AGENCIES?

A. Mr. Moul has supported the I&E argument that his proposed leverage adjustment is not needed by stating that the credit rating agencies are only concerned with the timely payment of interest and principal by utilities. Mr. Moul's stated need for the leverage adjustment is based on his assertion that the difference between the book value capital structure and his market value capital structure poses a financial risk difference.[14]

Financial risk does relate to the capital structure of a company, but it is created by the financing decisions (the use of debt or equity) and the amount of

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[12] UGI Electric Statement No. 5-R, p. 19, ln. 14 through p. 21, ln. 20.
[13] I&E Statement No. 2, p. 36, lines 13-15.
[14] UGI Electric Statement No. 5, p. 25, ln. 22 through p. 26, ln. 3.

leverage or debt with which a company chooses to finance its assets. Financial risk and the book value capital structure of a company are represented in the income statement, which is part of what is evaluated by rating agencies. Mr. Moul agrees with me that credit rating agencies use a company's financial statements in their analysis to assess financial risk and determine creditworthiness.[15]

Q. WHAT IS YOUR RESPONSE TO MR. MOUL'S REBUTTAL TESTIMONY ON YOUR REFERENCE TO PRIOR COMMISSION ORDERS?

A. Mr. Moul refers to the discussion in my direct testimony where I point to four recent cases where the Commission has rejected a "leverage adjustment." He explains that even though the Commission declined to make a "leverage adjustment" in the Aqua Pennsylvania case, it does not invalidate its use. Additionally, Mr. Moul claims that the adjustment proposed in the City of Lancaster case was much different than what he is proposing in this case. Further, Mr. Moul states, "Notably, the Commission did not repudiate the leverage adjustment in the Aqua case, but instead arrived at an 11.00% return on equity for Aqua by including a separate return increment for management performance." Finally, regarding UGI Electric's previous base rate case, Mr. Moul acknowledges

[15] UGI Electric Statement No. 5-R, p. 19, lines 18-21.

the Commission granted a management performance increment, not a leverage adjustment when arriving at the allowed equity return.[16]

Ultimately, a "leverage adjustment" was not granted in any of the cases in question. Further, in UGI Electric's prior base rate case, as Mr. Moul notes, the Company was granted a minimal incremental increase of 5 basis points for "management performance," which is significantly less than the 144-basis point adjustment Mr. Moul is recommending.

Q. WHAT IS YOUR RESPONSE TO MR. MOUL'S ASSERTION THAT INVESTORS DO NOT BASE THEIR DECISIONS ON BOOK VALUE, BUT RATHER THE RETURN THEY WILL EARN ON THE DOLLARS THEY INVEST?

A. Mr. Moul's assertion that an investor is unconcerned with the book value debt or "some accounting value of little relevance to them,"[17] of a utility is unsupported. Clearly an investor takes the financial risk of the utility into consideration when determining a required return. In addition, the market capitalization information included in Value Line's reports and discussed by Mr. Moul is not the same as market value capital structure. Market capitalization refers to the number of shares outstanding multiplied by the current price. A market value capital structure refers to the ratio of market debt to market equity, which is not included

[16] UGI Electric Statement No. 5-R, p. 20, lines 4-26.
[17] UGI Electric Statement No. 5-R, p. 21, lines 12-14.

in Value Line's reports. Therefore, Mr. Moul's contention that Value Line includes market capitalization data does not offer any support for his leverage adjustment.

Q. HAS YOUR RECOMMENDATION CHANGED FROM YOUR DIRECT TESTIMONY REGARDING MR. MOUL'S LEVERAGE ADJUSTMENT?

A. No. For the reasons discussed above, I continue to recommend that Mr. Moul's leverage adjustment be rejected.

<u>CAPITAL ASSET PRICING MODEL</u>

Q. SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING YOUR APPLICATION OF THE CAPM.

A. Mr. Moul opines that my CAPM analysis understates the cost of equity for a few reasons, which include my use of the yield on 10-year Treasury notes for my risk-free rate, my failure to use leveraged adjusted betas, and rejection of the size adjustment he employs.[18] Each of these topics are discussed in greater detail below.

[18] UGI Electric Statement No. 5-R, p. 24, lines 9-13.

RISK-FREE RATE

Q. SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING YOUR USE OF THE YIELD ON THE 10-YEAR U.S. TREASURY NOTE.

A. Mr. Moul claims that his use of the yield on a 30-year U.S. Treasury Bond is more appropriate than my use of the yield on a 10-year Treasury Note because 30-year bonds are "more a reflection of investor sentiment of their required returns…" and are also less susceptible to Federal policy actions.[19]

Q. DO YOU AGREE WITH MR. MOUL THAT USING THE YIELD OF A 30-YEAR U.S. TREASURY BOND IS MORE APPROPRIATE DUE TO A LONGER-TERM BOND BEING LESS SUSCEPTIBLE TO FEDERAL POLICY ACTIONS?

A. No. As explained in my direct testimony,[20] I chose the 10-year Treasury Note as it balances the short-comings of the short-term T-Bill and the 30-year Treasury Bond. Although long-term Treasury Bonds have less risk of being influenced by federal policies, they have substantial maturity risk associated with the market risk. In addition, long-term treasury bonds bear the risk of unexpected inflation. As such, my choice of a 10-year Treasury Note is more appropriate.

[19] UGI Electric Statement No. 5-R, p. 24, ln. 15 through p. 25 ln. 2.
[20] I&E Statement No. 2, p. 41, ln. 17 through p. 43, ln. 14.

Q. SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING YOUR CALCULATION OF THE RISK-FREE RATE USED IN THE CAPM FORMULA.

A. Mr. Moul opines that I have incorrectly given the same weight to the yield on the 10-year Treasury Note for the second quarter of 2021 as I do for the entire five-year period encompassing 2022 to 2026. He then recalculates the risk-free rate by averaging the 10-year treasury yield by year to determine a risk-free rate of 1.95%.[21]

Q. DO YOU AGREE WITH MR. MOUL'S ANALYSIS OF YOUR RISK-FREE RATE?

A. No. Mr. Moul's new calculation proposes to give equal weight to each separate year from 2021 to 2026. The flaw with this approach is that the further out into the future one forecasts, the less reliable and more speculative the estimates become; therefore, to give the less reliable estimates equal weight would not be sensible. It is more appropriate to weight the quarters and years as I have done in my direct testimony.[22] My calculation should provide a much more accurate estimation of the risk-free rate during the FPFTY, since as previously stated, the further out one forecasts, the less reliable the information becomes.

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21 UGI Electric Statement No. 5-R, p. 25, lines 4-14.
22 I&E Exhibit No. 2, Schedule No. 8.

LEVERAGED BETAS

Q. SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING THE USE OF LEVERAGE-ADJUSTED BETAS.

A. Mr. Moul simply states that I have failed "to use leveraged adjusted betas…".[23] He does not offer an explanation beyond what he argued in his direct testimony.

Q. IS THE USE OF LEVERAGE-ADJUSTED BETAS IN CAPM ANALYSIS APPROPRIATE?

A. No. Mr. Moul's adjustment only serves to inflate the result of his CAPM analysis which I have discussed in greater detail in my direct testimony.[24] Value Line is a well-known source that both investors and the Commission itself rely upon, therefore it is not necessary to make any type of adjustment to the Value Line betas.

SIZE ADJUSTMENT

Q. SUMMARIZE YOUR DIRECT TESTIMONY REGARDING A SIZE ADJUSTMENT.

A. In direct testimony, I stated that Mr. Moul's 102 basis point CAPM size adjustment is unnecessary because none of the technical literature he cited in his direct testimony supporting investment adjustments related to the size of a

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[23] UGI Electric Statement No. 5-R, p. 24, lines 12-13.
[24] I&E Statement No. 2, p. 43, ln. 19 through p. 44, ln. 14.

company is specific to the utility industry. In addition, I presented an article by Dr. Annie Wong that demonstrated there is no need to make an adjustment for the size of a company in utility rate regulation.[25]

Q. SUMMARIZE MR. MOUL'S RESPONSE IN REBUTTAL TESTIMONY REGARDING A SIZE ADJUSTMENT.

A. Mr. Moul states that enormous changes have occurred in the industry since the article "Utility Stocks and the Size Effect: An Empirical Analysis" by Dr. Annie Wong was published. He also references the Fama/French study, "The Cross-Section of Expected Stock Returns," to illustrate that his size adjustment is a separate factor from beta that helps explain systematic risk and returns. Additionally, Mr. Moul opines that external factors such as loss of larger customers and unexpected changes in expenses can affect the financial performance of a small company.[26]

Q. DOES THE TIME WHICH HAS ELAPSED SINCE AN ARTICLE WAS WRITTEN NECESSARILY INVALIDATE ITS RESULTS?

A. No. Although Mr. Moul states that enormous changes have occurred in the industry since the 1960s, he presents no evidence that these "changes" have caused a size adjustment to be needed. To the contrary, Dr. Wong's study

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[25] I&E Statement No. 2, p. 44, ln. 16 through p. 46, ln. 6.
[26] UGI Electric Statement No. 5-R, p. 26, ln. 3 through p. 27, ln. 20.

demonstrated that one does *not* need to be made in the regulated utility industry. As stated in my direct testimony, absent any credible article to refute Dr. Wong's findings, Mr. Moul's size adjustment to his CAPM results should be rejected.

Q. DOES THE FAMA/FRENCH STUDY REFUTE DR. WONG'S ARTICLE?

A. No. As stated in my direct testimony, Dr. Wong's article presents evidence that although a size effect may exist for industrial stocks, it does not exist for utility stocks. As the Fama/French study is not specific to utility stocks, it does not demonstrate that a size effect exists in the utility industry. In addition, the size effect that exists for industrial stocks varies to such an extent that it is difficult to predict. The difficulty in predicting the effect of size is demonstrated in the variance from year to year of the measurement of difference between the annual returns on the large and small-capitalization stocks of the NYSE/AMEX/NASDAQ in the Ibbotson *Stocks, Bonds, Bills & Inflation: 2015 Yearbook*. As stated on page 100 of the SBBI Yearbook,

> While the largest stocks actually declined in 2001, the smallest stocks rose more than 30%. A more extreme case occurred in the depression-recovery year of 1933, when the difference between the first and 10th decile returns was far more substantial. The divergence in the performance of small- and large- cap stocks is evident. In 30 of the 89 years since 1926, the difference between the total returns of the largest stocks (decile 1) and the smallest stocks (decile 10) has been greater than 25 percentage points.

Page 109 states,

> In four of the last 10 years, large-capitalization stocks (deciles 1-2 of NYSE/AMEX/NASDAQ) have outperformed small-capitalization stocks (deciles 9-10). This has led some market observers to speculate that there is no size premium. But statistical evidence suggests that periods of underperformance should be expected.

Page 112 states,

> Because investors cannot predict when small-cap returns will be higher than large-cap returns, it has been argued that they do not expect higher rates of return for small stocks.

Q. ARE MR. MOUL'S CONCERNS REGARDING THE IMPACT OF LOSS OF LARGE CUSTOMERS OR UNEXPECTED INCREASES IN EXPENSES VALID?

A. No, I do not believe so. In response to a data request regarding changes in the number of customers due to various risk factors, Mr. Moul revealed that he was not aware of any significant changes in the projected number of customers in any particular rate class.[27] Further, utility companies always have the option to file a base rate case to address declining revenues and to recover the increasing costs of doing business in addition to emergency rate relief provisions for large unforeseen impacts; non-utility businesses that may be significantly impacted by events of this nature due to small operating size do not have these opportunities.

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[27] I&E Exhibit No. 2, Schedule 12.

Q. WHAT IS YOUR RECOMMENDATION REGARDING MR. MOUL'S SIZE ADJUSTMENT?

A. I continue to recommend that his use of the 1.02% size adjustment be disallowed in calculating the CAPM.

Q. MR. MOUL HAS RECALCULATED YOUR CAPM RESULTS.[28] DO YOU AGREE WITH HIS RECALCULATION?

A. No. Mr. Moul's recalculation is incorrect for a couple of reasons. As stated in both my direct testimony and above, he used an inaccurate risk-free rate and an unnecessary size adjustment. Because of these factors, the recalculation of my CAPM results as Mr. Moul illustrates is unreliable and unnecessary.

RISK PREMIUM (RP)

Q. SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING THE RP METHOD.

A. Mr. Moul opines that the RP approach should be given serious consideration because it is straight-forward, understandable and uses a company's own borrowing rate. He claims it provides a direct and complete reflection of a utility's risk and return. Mr. Moul also states that I make an unfounded assertion

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[28] UGI Electric Statement No. 5-R, p. 26, lines 1-2.

that the RP method does not measure the current cost of equity as directly as the DCF.[29]

Q. DO YOU AGREE WITH MR. MOUL THAT THE RP METHOD PROVIDES A DIRECT AND COMPLETE REFLECTION OF A UTILITY'S RISK AND RETURN?

A. No. The RP method produces an indirect measure when compared to the DCF Method.

Q. PLEASE COMMENT ON THE INDIRECT MEASURE OF THE RP METHOD VERSUS THE MORE DIRECT MEASURE OF THE DCF METHOD.

A. Mr. Moul claims my statement that the Risk Premium method does not measure the current cost of equity as directly as the DCF is without foundation. In my direct testimony, I have clearly illustrated how the two measures are different.[30] The main reason is that the RP method determines the rate of return on common equity indirectly by observing the cost of debt and adding to it an equity risk premium. The DCF measures equity more directly through the stock information (using equity information), whereas the RP method measures equity indirectly using debt information.

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[29] UGI Electric Statement No. 5-R, p. 29, ln. 8 through p. 30, ln. 23.
[30] I&E Statement No. 2, p. 13, ln. 6 through p. 19, ln. 11.

COMPARABLE EARNINGS

Q. SUMMARIZE MR. MOUL'S REBUTTAL TESTIMONY REGARDING THE COMPARABLE EARNINGS (CE) METHOD.

A. Mr. Moul claims that using the CE method satisfies the comparability standard established in the *Hope* case. Additionally, he states, "the financial community has expressed the view that the regulatory process must consider the returns that are being achieved in the non-regulated sector to ensure that regulated companies can compete effectively in the capital markets."[31]

Q. DO YOU BELIEVE THAT THE COMPANIES USED BY MR. MOUL IN HIS CE METHOD ANALYSIS ARE COMPARABLE TO UGI ELECTRIC?

A. No. As explained in my direct testimony,[32] the companies in Mr. Moul's analysis are not utilities and. therefore, are too disparate to be used in a CE analysis. For example, the criteria Mr. Moul uses to choose the companies in his CE group results in the selection of companies such as 3M Company, Altria Group Inc., Apple Inc., CVS Caremark Corporation, Hershey Company, Intel Company, Mastercard Incorporated, Starbucks Corporation, and Walt Disney Co. just to name few. All these companies operate in industries very different from a utility company and operate under varying degrees of regulation. Also, a large majority, if not all the companies Mr. Moul uses in his analysis are not monopolies as

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31 UGI Electric Statement No. 5-R, p. 31, lines 1-19.
32 I&E Statement No. 2, p. 27, lines 9-19.

utilities largely are. This means that they have significantly more competition and would require a higher return for the added risk. Further, the CE method should be excluded because it is entirely subjective as to which companies are comparable and it is debatable whether historic accounting returns are representative of the future.

<u>OVERALL RATE OF RETURN</u>

Q. HAS YOUR OVERALL RATE OF RETURN RECOMMENDATION CHANGED FROM YOUR DIRECT TESTIMONY?

A. Yes. Although I continue to support my cost of equity recommendation made in I&E Statement No. 1, I accept the Company's updated long-term debt cost rate as discussed above.

Q. WHAT IS YOUR UPDATED OVERALL RATE OF RETURN RECOMMENDATION?

A. I recommend the following rate of return for UGI Electric:

Type of Capital	Ratio	Cost Rate	Weighted Cost
Long-Term Debt	48.80%	4.07%	1.99%
Common Equity	51.20%	8.58%	4.39%
Total	100.00%		6.38%

<u>EMERGENY RELIEF PROGRAM</u>

Q. PLEASE PROVIDE SOME BACKGROUND REGARDING THE ERP REQUEST IN THIS PROCEEDING.

A. In response to the COVID-19 pandemic, and as explained in my rebuttal testimony,[33] OCA witness Colton recommends that UGI Electric continue to pursue implementation of its originally proposed ERP (at Docket No. P-2021-3023992) within this rate proceeding.[34] He notes that the petition was neither approved nor denied by the Commission during its March 25, 2021 Public Meeting,[35] and that this rate proceeding provides an opportunity for the Company to build on the needs identified in its original petition.

CEO witness Brady's testimony is similar to Mr. Colton's and expresses general concern of the impact this rate proceeding may have on low-income ratepayers, particularly when continuing to deal with the economic difficulties created by the pandemic.[36] Specific to the COVID-19 ERP, he claims he would like to see measures similar to those adopted in the UGI Gas base rate proceeding (at Docket No. R-2019-3015162) which provided for arrearage forgiveness, extended payment arrangements, expanded hardship funding, and additional LIURP funding among other things.[37] Ultimately, Mr. Brady recommends,

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[33] I&E Statement No. 2-R, p. 2, ln. 4 through p. 3, ln. 19.
[34] OCA Statement No. 4, p. 24, lines 21-23.
[35] OCA Statement No. 4, p. 22, lines 27-28.
[36] CEO Statement No. 1, p. 3, lines 17-21.
[37] CEO Statement No. 1. p. 4, lines 1-7.

"should a rate increase be granted, that the measures set forth in the Company's proposed Phase I ERP for its customers be part of any such rate increase."[38]

Q. SUMMARIZE YOUR RESPONSE IN REBUTTAL TESTIMONY TO THE RECOMMENDATIONS MADE BY MR. BROWN AND MR. BRADY REGARDING THE ERP.

A. Due to the increasing number of Pennsylvanians becoming vaccinated, the declining unemployment rate, the lack of budget or cost-containment concerns as expressed by Commissioners Coleman and Yanora, generous modifications to existing arrearage collection policies as detailed by Chairman Brown Dutrieuille, and the fact that these recommendations were made after the originally proposed ERP termination date of April 30, 2021, I recommended that the proposed ERP Plan be disallowed.[39]

Q. SUMMARIZE THE REBUTTAL TESTIMONIES OF UGI ELECTRIC WITNESSES BROWN AND ADAMO REGARDING MESSRS. COLTON AND BRADY'S ERP RECOMMENDATIONS.

A. Mr. Brown explicitly states that he disagrees with Mr. Colton and Mr. Brady regarding the implementation of an ERP as part of this proceeding. Similar to what I have done, he cites the ongoing improvement of the public and economic

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[38] CEO Statement No. 1, p. 10, lines 17-19.
[39] I&E Statement No. 2-R, p. 4, ln. 1 through p. 6, ln. 12.

health of the country and the Commonwealth. Mr. Brown also makes it clear that the Company recognizes the negative impacts the COVID-19 pandemic has had on its customers and it continues to aid customers experiencing hardship by extending payment arrangements and providing guidance on various available low-income programs.[40]

Mr. Adamo, like Mr. Brown, disagrees with the proposals regarding an ERP presented in this proceeding. He also notes the improvement from the pandemic's start, details the various available state and federal assistance programs, and summarizes UGI Electric's internal efforts to aid customers facing financial hardship. Additionally, Mr. Adamo criticizes some of the data relied upon by Mr. Colton in the PULSE Survey to form his recommendations.[41]

Q. DO YOU AGREE WITH THE RESPONSES PRESENTED BY COMPANY WITNESSES BROWN AND ADAMO CONCERNING THE PROPOSED ERP?

A. Yes.

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[40] UGI Electric Statement No. 1-R, p. 7, ln. 14 through p. 11, ln. 6.
[41] UGI Electric Statement No. 10-R, p. 7, ln. 13 through p. 16, ln. 17.

Q. HAS YOUR OPINION REGARDING IMPLEMENTATION OF AN ERP PROGRAM CHANGED AS A RESULT OF COMPANY REBUTTAL TESTIMONY?

A. No. I concur with the Company's position on this issue, and I continue to recommend that the proposed ERP be disallowed.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.

I&E Statement No. 3-SR
Witness: Ethan H. Cline

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

UGI UTILITIES, INC. – ELECTRIC DIVISION

Docket No. R-2021-3023618

Surrebuttal Testimony

of

Ethan H. Cline

Bureau of Investigation and Enforcement

Concerning:

Electric Vehicle Charging Stations
Battery Storage Project
Utility Plant-in-Service
Annual Depreciation Expense
Accumulated Depreciation
Rate Base
Future Test Year and Fully Projected Future Test Year Reports
Customer Charge
Scale Back of Rates

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<u>INTRODUCTION</u>

Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. My name is Ethan H. Cline. My business address is P.O. Box 3265, Harrisburg, PA 17105-3265.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Pennsylvania Public Utility Commission in the Bureau of Investigation and Enforcement ("I&E") as a Fixed Utility Valuation Engineer.

Q. ARE YOU THE SAME ETHAN H. CLINE THAT SUBMITTED I&E STATEMENT NO. 3 AND I&E EXHIBIT NO. 3 ON MAY 3, 2021?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony submitted by witnesses on behalf of UGI Utilities, Inc. – Electric Division ("UGI Electric" or "Company") by: Eric W. Sorber (UGI Electric St. No. 3-R), Vivian K. Ressler (UGI Electric St. No. 4-R), John D. Taylor (UGI Electric St. No. 6-R), and John F. Wiedmayer (UGI Electric St. No. 7-R).

Q. DOES YOUR TESTIMONY INCLUDE AN EXHIBIT?

A. Yes. I&E Exhibit No. 3-SR contains schedules relating to my testimony.

Q. PLEASE DESCRIBE THE FILING.

A. On February 8, 2021, UGI Electric filed a base rate increase request of $8,709,000 using the Fully Projected Future Test Year ("FPFTY") ending September 30, 2022.

ELECTRIC VEHICLE CHARGING STATIONS

Q. WHAT DID YOU RECOMMEND REGARDING THE EV CHARGING PROJECT IF THE COMMISSION APPROVES THE PROJECT?

A. I recommended that the Company's proposed EV Charging project be approved. I further recommended that the Company, starting one year after the first EV charging station is deployed and continuing on an annual basis thereafter, provide an update on the status of the EV Charging project, the corresponding plant, operating expenses, revenue and the progress that has made toward meeting its stated goals, and any other related information that may be valuable. Finally, in its next base rate case, I recommended the Company provide a detailed discussion in testimony regarding its choice to either end, continue as is, or expand its EV charging station operations. (I&E St. No. 3 pp. 4-5).

Q. DID THE COMPANY AGREE WITH YOUR RECOMMENDATIONS REGARDING REPORTING REQUIREMENTS FOR THE EV CHARGING PROJECT?

A. Yes. UGI Electric witness Sorber stated that the Company agreed with both of my recommendations regarding reporting requirements for the EV Charing project (UGI Electric St. No. 3-R, pp. 39-40).

<u>BATTERY STORAGE PROJECT</u>

Q. WHAT IS UGI ELECTRIC PROPOSING REGARDING THE BATTERY STORAGE PROJECT?

A. UGI Electric is proposing to "install and interconnect a utility-owned, small-scale, energy storage battery into the primary distribution system." (UGI Electric St. No. 3, p. 24).

Q. WHAT DID YOU RECOMMEND REGARDING UGI ELECTRIC'S PROPOSED BATTERY STORAGE PROJECT?

A. I recommended that UGI Electric's Battery Storage Project be denied because the battery storage project is more appropriately considered a generation asset (I&E St. No. 3, p. 9). I further recommended that due to the costs of this program that the timing of this recommendation is not appropriate due to the rate impact to ratepayers who have experienced financial hardship as a result of the pandemic. I also recommended, in the event the Commission approves the battery storage project, that all generation and distribution revenue received by UGI from connecting the battery storage project be credited 100% to UGI Electric's customers (I&E St. No. 3, p. 12).

Q. DID THE COMPANY AGREE WITH YOUR RECOMMENDATION TO DENY THE BATTERY STORAGE PROJECT?

A. No. UGI Electric witnesses Sorber and Taylor addressed the reasons why the Company did not agree with my recommendation to deny the battery storage project. Specifically, Mr. Taylor also referenced, on pages 53-54 the Commission's requirement, through Phase IV of Act 129 Energy Efficiency and Conservation, to bid peak demand reductions on the PJM Forward Capacity Market. Mr. Sorber provided additional detail, on pages 17-18 of UGI Electric Statement No. 3-R, regarding the other options for addressing the reliability issue surrounding the 67 customers and their associated costs compared to the cost of the battery storage project.

Q. CAN THE BATTERY STORAGE PROJECT BE CLASSIFIED AS DISTRIBUTION ASSET?

A. UGI witness Mr. Taylor argues on pages 43-49 of UGI Electric Statement No. 6-R, that the battery storage project is a distribution asset. However, as indicated by Mr. Taylor on pages 43-44 of UGI Electric Statement No. 6-R, the Commission currently has an ongoing policy proceeding at Docket No. M-2020-3022877 regarding the inclusion of storage resources as electric distribution assets. In that policy proceeding, stakeholders have been asked to address questions that are at the heart of the UGI's request to approve its battery storage project in this base rate case:

> 1. What applications can electric storage provide as a distribution asset for utilities that would facilitate improved reliability and resiliency?
>
> 2. What are the defining characteristics of electric storage used for distribution asset planning as distinguished from generation resources? What thresholds, if any, would classify electric storage as a generation resource and therefore outside permitted distribution ratemaking and recovery?
>
> 3. Is it prudent for utilities to include electric storage in their distribution resource planning and, if so, where and under what circumstances? Further, is it appropriate for utilities to include such investments in rate base?
>
> Re: Policy Proceeding—Utilization of Storage Resources as Electric Distribution Assets, Docket No. M-2020-3022877, Secretarial Letter (December 3, 2020).

Given that several parties in this proceeding have raised the concern that the battery storage is a generation asset and that the Commission currently has an ongoing proceeding to address these very issues, UGI's request for Commission approval of its battery storage project as a distribution asset that can be recovered in rate base in this proceeding is premature.

Q. DO YOU AGREE WITH MR. SORBER THAT THE COMPANY PRESENTED ALL OF THE POSSIBLE SOLUTIONS TO THE RELAIBILITY ISSUE AT HAND?

A. No. While I agree that the battery storage project appears to be the most cost effective of the options that Mr. Sorber presented on pages 17-18 of UGI Electric Statement No. 3-R, I do not believe the list of options presented represents an exhaustive list. As an example, one possible solution would be to provide each of the 67 customers a home generator, which would provide the same functionality as the battery storage project with a lower cost and potentially longer backup power duration.

Q. BASED ON THE NEW INFORMATION PROVIDED BY THE COMPANY IN ITS REBUTTAL TESTIMONIES, DO YOU WISH TO CHANGE YOUR RECOMMENDATION?

A. No. Mr. Sorber stated on page 20 of UGI Electric Statement No. 3-R that the question is whether the battery storage project is a cost-effective solution to an identified reliability concern. However, I do not agree that the battery storage project is necessarily the most cost effective solution to the Company's reliability concern. As I stated above, there may be other more cost-effective solutions to the relatability problem presented by the Company. Ultimately, I continue to believe that the proposed battery storage project is a costly project introduced during a time of economic uncertainty that only provides a limited, stop-gap solution to the Company's stated reliability issues.

Q. DID YOU MAKE ANY FURTHER RECOMMENDATIONS ON THE CONDITION THAT THE COMMISSION APPROVES THE BATTERY STORAGE PROJECT?

A. Yes. On page 12 of I&E Statement No. 3, I recommended, if the Commission approves the battery storage project, that all generation and distribution revenue received by UGI Electric through the battery storage project be credited 100% to UGI Electric's customers.

Q. DID THE COMPANY AGREE WITH THIS RECOMMENDATION?

A. Yes. On page 25 UGI Electric Statement No. 3-R, p. 25, Mr. Sorber indicated that the Company agrees with my revenue allocation recommendation.

UTILITY PLANT-IN-SERVICE

Q. DID YOU HAVE A RECOMMENDATION REGARDING UTILITY PLANT-IN-SERVICE IN THIS PROCEEDING?

A. Yes, I recommended that UGI Electric's FPFTY utility plant-in-service be reduced consistent with my recommendation to reject the battery storage project discussed above by $1.5 million from $226,945,390 to $225,445,390. (I&E St. No. 3, p. 15).

Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION?

A. No. As I stated on page 15 of I&E Statement No. 3, that my recommendation is contingent upon the Commission's rejection of the battery storage project. Therefore, as I am not withdrawing my recommendation to deny the battery storage, as discussed above, I am also not withdrawing the associated utility plant-in-service, annual depreciation expense, and accumulated depreciation adjustments.

<u>ANNUAL DEPRECIATION EXPENSE</u>

Q. DID YOU HAVE A RECOMMENDATION REGARDING THE COMPANY'S ANNUAL DEPRECIATION EXPENSE CLAIM?

A. Yes. I recommended the Company's annual depreciation expense claim in the FPFTY be reduced by $232,642 from $7,114,301 to $6,881,659. This recommendation included a $90,090 negative adjustment for Account 363 related to my battery storage project recommendation (I&E ST. No. 3, p. 16). I submitted an alternate recommendation to the Company's claim for annual depreciation expense accounts 363, 371.1 and 391.92, described above, be reduced by $187,598 from $7,114,301 to $6,926,703 if the Commission does not deny the battery storage project (I&E St. No. 3, pp. 18-19).

Q. DID THE COMPANY AGREE WITH YOUR RECOMMENDATION REGARDING ANNUAL DEPRECIATION EXPENSE?

A. No. UGI Electric witness Weidmayer disagreed with my recommendation and, citing the Commission's Order in the UGI Electric base rate case at Docket No. R-2017-2640058, stated that annual depreciation expense should be determined on an end of year basis (UGI Electric St. No. 7-R, pp. 5-6).

Q. WHAT DOES MR. WEIDMAYER CLAIM IS THE APPROPRIATE METHOD FOR ACCOUNTING FOR ANNUAL DEPRECIATION EXPENSE AND ACCUMULATED DEPRECIATION?

A. On page 4 of UGI Electric Statement no. 7-R, Mr. Weidmayer claims that "[t]he pro forma annual depreciation expense claim is based on plant in service at the end of the year and includes the annualization of depreciation expense related to plant additions made during the FPFTY. In contrast, book depreciation accruals recorded during the FPFTY are determined monthly and are based on average monthly plant balances, which change each month due to changes in plant activity, such as plant additions and retirements." He further cited to the Commission's ruling in the UGI Electric base rate case at Docket No. R-2017-2640058, and subsequent support by the Pennsylvania Commonwealth Court, regarding the use of an end-of-year methodology to determine annual depreciation expense (UGI Electric St. No. 7-R, pp. 5-6).

Q. DO YOU WISH TO CHANGE YOUR RECOMMENDATION REGARDING THE COMPANY'S CLAIM FOR ANNUAL DEPRECIATION EXPENSE?

A. Yes. While it was not my intention to apply a true average rate base methodology for the entire life of the assets, but instead to align the annual depreciation expense and accumulated depreciation, in deference to the Commission and Commonwealth Court's decision, I withdraw my recommendation to include a half year of annual depreciation expense and accumulated depreciation for Accounts 363, 371.1, and 391.92. Therefore, my only recommendation regarding annual depreciation expense would be contingent upon the removal of the battery storage project. If the Commission denies the battery storage project, then the Company's annual depreciation expense would necessarily be reduced by $90,090 from $7,114,301 to $7,024,211.

<u>ACCUMULATED DEPRECIATION</u>

Q. DID THE COMPANY INCLUDE IN ITS DIRECT CASE AN ACCUMULATED DEPRECIATION CLAIM ASSOCIATED WITH ACCOUNTS 363, 371.1, AND 391.92 IN THE FPFTY?

A. No. As I discussed on page 20 of I&E Statement No. 3, the Company claimed a book reserve of $0 for each of the following accounts: Account 363 Battery Storage, Account 371.1 Installations on Customer Premises – EV Charging

Stations, and Account 391.92 Office Furniture and Equipment – Outage Management Software.

Q. DID MR. WEIDMAYER ADJUST UGI'S ELECTRIC'S CLAIM FOR ACCUMULATED DEPRECIATION?

A. Yes. Mr. Weidmayer corrected the accumulated depreciation balance claimed in the original filing to equal to one half-month's depreciation accrual be used for each of the three plant accounts based on their September 2022 in-service date for a total increase to accumulated depreciation of $15,498 (UGI Electric St. No. 7-R, pp. 13-14).

Q. HOW DID MR. WEIDMAYER DETERMINE HIS TOTAL RECOMMENDED ADJUSTMENT TO ACCUMULATED DEPRECIATION OF $15,498?

A. The process he described on pages 13-14 of UGI Electric Statement No. 7-R was the same for all three accounts; he multiplied half of the average monthly plant balance for each account by 1/12th of the annual depreciation rate. Mr. Weidmayer also excluded 26.1612% of Account 391.92 because of the portion of that account allocated to Transmission Plant and not being recovered in this filing.

Q. WHAT WAS YOUR RECOMMENDATION REGARDING THE UTILITY'S ACCUMULATED DEPRECIATION IN THIS PROCEEDING?

A. My primary recommendation was to increase accumulated depreciation by $142,552 which excluded the plant associated with the Battery Storage project. I also recommended, if the Commission disagreed with my recommendation to deny the Battery Storage project, an increase in accumulated depreciation of $187,597 (I&E St. No. 3, p. 20).

Q. DID MR. WEIDMAYER PROVIDE ANY REASON WHY IT IS REASONABLE TO CLAIM A FULL YEAR OF ANNUAL DEPRECIATION EXPENSE FOR PLANT THAT WILL ONLY BE IN SERVICE IN THE FINAL MONTH OF THE FPFTY?

A. No. Mr. Weidmayer failed to explain why it is reasonable to reflect a full year of annual depreciation expense and only reflect one month of accumulated depreciation. Instead, he merely explained the calculation of his recommendation.

Q. IS THE COMPANY'S POSITION REASONABLE?

A. No. It is not reasonable or fair for a utility to pick and choose an annualized depreciation expense claim and a partial year accumulated depreciation to maximize the revenue requirement to the detriment of ratepayers. While I concur that the Commission agreed with the annualization to the full year amount for expenses, it is only reasonable that the corresponding accumulated depreciation be equivalently annualized. Depreciation expense and accumulated depreciation are balancing accounting transactions and skewing them in the manner that the Company has selected harms ratepayers. If the Company wishes to recognize a full year annualized depreciation expense, it should also recognize a full year annualized accumulated depreciation. Failing to match these two transactions unfairly increases the revenue requirement to the Company to the detriment of the ratepayers.

Q. ARE YOU RECOMMENDING A CHANGE TO YOUR ORIGINAL ACCUMULATED DEPRECIATION RECOMMENDATION?

A. Yes. I am recommending that, consistent with the annual depreciation expense claimed by the Company, and the Commission's decision in the UGI Electric base rate case at Docket No. R-2017-2640058, discussed above, the accumulated depreciation claim similarly be calculated on an annualized, end-of year basis. Therefore, I recommend the Company's adjusted accumulated depreciation claim for accounts be increased by $126,150 from $15,498 to $141,648.

Q. WHAT ACCUMULATED DEPRECIATION ADJUSTMENT DO YOU RECOMMEND IF THE COMMISSION APPROVES THE BATTERY STORAGE PROJECT?

A. If the Commission approves the battery storage project, I recommend the

Company's adjusted accumulated depreciation claim be increased by $170,532 from $15,498 to $186,030.

Q. HOW DID YOU DETERMINE YOUR UPDATED RECOMMENDATION FOR ACCUMULATED DEPRECIATION FOR ACCOUNTS 363, 371.1, AND 391.92.

A. Because Mr. Weidmayer used 1/12th of the annual depreciation rate to determine his updated monthly accumulated depreciation, in order to annualize that number, I multiplied his results by 12 as shown on the table below.

Table 1: excluding Battery Storage Project			
Account:	UGI Electric Updated claim	Adjustment	I&E Updated claim
363	$3,694	($3,694)	$0
371.1	$1,343	$14,773	$16,116
391.92	$10,461	$115,071	$125,532
TOTAL	$15,498	$126,150	$141,648

Table 2: including Battery Storage Project			
Account:	UGI Electric Updated claim	Adjustment	I&E Updated claim
363	$3,694	$40,634	$44,382
371.1	$1,343	$14,773	$16,116
391.92	$10,461	$115,071	$125,532
TOTAL	$15,498	$170,478	$186,030

RATE BASE

Q. WHAT WAS I&E'S RATE BASE RECOMMENDATION IF THE BATTERY STORAGE PROJECT IS APPROVED?

A. If the battery storage project is denied, I recommended a reduction in the Company's FPFTY base rate claim of $1,642,552 from $131,831,518 to $130,831,518. If the battery storage project is approved, I recommended a reduction in the Company's FPFTY base rate claim of $187,597 from $131,831,518 to $131,643,921 (I&E St. No. 3, p. 24).

Q. DID THE COMPANY INCLUDE ANY UPDATES TO ITS RATE BASE CLAIM IN REBUTTAL TESTIMONY?

A. Yes. UGI Electric witness Ressler, on page 2 of UGI Electric Statement No. 4-R, provided a summary of proposed rate base updates since the time of its original filing. Specifically, the Company is proposing two adjustments to net plant in service totaling approximately $235,000, an increase of $135,000 to its customer deposits claim, and an increase of $166,000 to its Materials and Supplies claim to reflect the use of the 13-month average balance through April 2021.

Q. DO YOU OPPOSE ANY OF THE COMPANY'S PROPOSED UPDATES?

A. No. As shown on I&E Exhibit No. 3-SR, Schedule 1, I have based my updated rate base recommendation on the Company's updated level of rate base.

Q. WHAT IS YOUR OVERALL RATE BASE RECOMMENDATION?

A. As shown on I&E Exhibit No. 3-SR, Schedule 1, if the Commission denies the battery storage project, I recommend the Company's updated rate base claim be reduced by approximately $1,626,000 from $132,394,000 to $130,768,000. Alternatively, if the Commission approves the battery storage project, I recommend the Company's updated rate base claim be reduced by approximately $170,000 from $132,394,000 to $132,224,000, as shown on I&E Exhibit No. 3-SR, Schedule 2.

<u>FTY AND FPFTY REPORTING</u>

Q. DID YOU HAVE ANY RECOMMENDATIONS REGARDING PLANT ADDITIONS THAT UGI ELECTRIC PROJECTS TO BE IN SERVICE DURING THE FTY ENDING SEPTEMBER 30, 2021 AND THE FPFTY ENDING SEPTEMBER 30, 2022?

A. Yes. I recommended that the Company provide the Commission's Bureaus of Technical Utility Services and Investigation and Enforcement with an update to UGI Electric Volume 5 – Exhibit 3-C, no later than January 2, 2022, which should include actual capital expenditures, plant additions, and retirements by month from October 1, 2020 through September 30, 2021 and an additional update for actuals from October 1, 2021 through September 30, 2022, no later than January 2, 2023 (I&E St. No. 3, p, 26).

Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION?

A. No. It does not appear that the Company specifically responded to this recommendation. Therefore, I will interpret the lack of response as agreement.

FORFEITED DISCOUNTS

Q. WHAT DID YOU RECOMMEND REGARDING THE AMOUNT OF REVENUE FROM FORFEITED DISCOUNTS THE COMPANY WILL RECEIVE UNDER PROPOSED RATES FOR THE FPFTY?

A. I recommended that UGI Electric's forfeited discount claim in the FPFTY be increased by the same percent increase as the overall base rate increase granted by the Commission. (I&E St. No. 3, p. 28).

Q. DID THE COMPANY RESPOND TO YOUR RECOMMENDATION?

A. Yes. The Company agreed that the forfeited discounts should be reflected based on the revenue increase (UGI Electric St. No. 4-R, p. 14).

CUSTOMER CHARGE

Q. WHAT RESIDENTIAL MONTHLY CUSTOMER CHARGE IS THE COMPANY RECOMMENDING?

A. The Company is recommending that the current residential customer charge of $8.34 be increased to $13.00 (UGI Electric St. No. 6, p. 26).

Q. WHAT DID YOU RECOMMEND CONCERNING THE PROPOSED $13.00 PER MONTH RESIDENTIAL CUSTOMER CHARGE?

A. I recommended that the $13.00 per month Residential customer charge be included in the scale back of rates if the Commission grants less than the full requested increase (I&E St. No. 3, pp. 29-30).

Q. WHY DID YOU MAKE THIS RECOMMENDATION?

A. The $4.25 per month increase from $8.74 to $13.00 per month, or approximately 49%, is a significant increase. Therefore, this recommendation will moderate this large percentage increase. Furthermore, the Commission granted a lower customer charge despite approving the Company's customer cost analysis in the last UGI Electric base rate case at Docket R-2017-2640058, Commission Order, p. 182, Order Entered October 25, 2018. (I&E St. No. 3, pp. 29-30).

Q. DID THE COMPANY ADDRESS YOUR RESIDENTIAL CUSTOMER CHARGE RECOMMENDATION?

A. Yes. The Company disagreed with my recommendation and pointed generally to Mr. Taylor's direct and rebuttal testimonies as support (UGI Electric St. No. 6-R, pp. 28-29). Specifically, the Company stated that the $13.00 per month residential customer charge is supported by the cost-of-service study. The Company also claimed the Commission should only consider the total bill of a customer, not the customer charge (UGI Electric St. No. 6-R, pp. 29-36).

Q. DO THE RESULTS OF A CUSTOMER COST ANALYSIS PRECLUDE THE CUSTOMER CHARGE FROM BEING SCALED BACK IF THE COMMISSION GRANTS LESS THAN THE FULL INCREASE?

A. No. Since the customer cost analysis is comprised of components claimed in the case under full rates, it is reasonable to assume that a Commission Order reducing specific claims made by the Company are reflected in the customer cost analysis such as expenses, rate of return, and taxes. Furthermore, as I stated in my direct testimony and above, in the Company's last base rate case, the Commission approved the customer cost analysis submitted by the Company but nevertheless granted a residential customer charge less than what was proposed by the Company.

Q. SHOULD THE COMMISSION ONLY CONSIDER THE IMPACT TO THE TOTAL BILL AS SUGGESTED BY THE COMPANY?

A. No. The Company's desire to downplay the impact to low usage customers is misplaced. The average customer bill is not the issue when determining the monthly customer charge. The Company does not deny that zero usage and low usage customers will experience a larger increase, but erroneously recommends that the Commission only consider the total bill of an average customer. The flaw in this recommendation is that if the Commission accepts the Company's premise that the only aspect that matters is the total bill of an average customer, then the level of the monthly customer charge becomes irrelevant because the Company will receive its revenue on a total basis from the average customer. Since the Company believes that a high customer charge is justified it must not believe the total bill is a factor, and neither should the Commission.

Q. WHAT CUSTOMER CHARGE IS THE COMPANY PROPOSING FOR THE GS-1 RATE CLASS?

A. The Company is proposing to increase the GS-1 class customer charge by $4.17 from $9.83 to $14.00 (UGI Electric Ex. E, p. 13).

Q. ARE YOU RECOMMENDING A SCALE BACK OF THE COMPANY'S PROPOSED $14.00 GS-1 CUSTOMER CHARGE?

A. Yes. Similar to the residential class, the proposed 42% (($14.00 - $9.83) / $9.83) increase to the GS-1 class customer charge represents a significant increase. Therefore, if the Commission grants less than the full requested increase, I recommend that the $14.00 GS-1 customer charge be scaled back. (I&E St. No. 3, p. 30).

<u>SCALE BACK OF RATES</u>

Q. WHAT SCALE BACK METHODOLOGY DID YOU RECOMMEND IF THE COMMISSION GRANTS LESS THAN THE FULL INCREASE?

A. I recommended that if the Commission grants less than the Company's requested increase, I recommend the first $105,000 be applied to the GS-1 rate class. Any further reductions should be applied proportional to the percent increase shown on I&E Ex. 3, Sch. 5, column H (I&E St. No. 3, p. 30).

Q. WHAT WAS THE BASIS FOR YOUR SCALE BACK METHODOLOGY?

A. As shown on Table 2 on page 22 of UGI Electric Statement No. 6, the relative rate of return for the residential rate class under present rates is negative 0.39 while the relative rate of return at present rates for the GS-1 rate class is negative 0.36. This shows that the revenue from both classes is less revenue than their respective cost to serve. In spite of the fact that the residential class relative rate of return is lower than the relative rate of return for the GS-1 class, the Company proposed a larger percentage increase for the GS-1 class. To eliminate the larger percentage increase for the GS-1 class, I recommend the first $105,000 of any scale back be applied to the GS-1 class. (I&E St. No. 3, p. 31).

Q. DID THE COMPANY ADDRESS YOUR SCALE BACK RECOMMENDATION?

A. Yes. The Company stated on page 9 of UGI Electric Statement No. 6-R "[i]f Mr. Cline believes the GS-1 class should have received a lower increase, then he should propose this occur irrespective of any scale back."

Q. DID THE COMPANY PROVIDE THE RATIONALE OR SUPPORT FOR ITS RECOMMENDATION?

A. No. The Company failed to explain why my methodology is incorrect from a mathematical perspective or improper from a regulatory perspective.

Q. DID THE COMPANY PROVIDE ANY REFERENCES TO PRIOR COMMISSION ORDERS REJECTING ANY TYPE OF TARGETED SCALE BACK?

A. No. The Company failed to provide any references where the Commission rejected a targeted scale back in favor of first re-allocating revenue.

Q. WHY DID YOU NOT PROPOSE A LOWER INCREASE FOR THE GS-1 CLASS AT THE FULLY REQUESTED INCREASE?

A. At the Company's fully requested increase, a lower increase for the GS-1 class would have necessarily meant a larger increase for the residential class. However, I did not want to propose a larger increase to the Residential class than the Company originally proposed. Therefore, the targeted scale-back that I recommend achieves this goal while correcting the Company's flawed allocation of the increase to the various classes. In addition, this simpler recommendation makes the percentage increase the same for both classes after it is applied, thus reducing the need to describe another step to scale back rates.

Q. SHOULD THE COMMISSION CONSIDER THE COMPANY'S RECOMMENDATION AS A VALID PROPOSAL?

A. No, for the reasons stated above.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.

I&E Exhibit No. 3-SR
Witness: Ethan H. Cline

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

UGI UTILITIES, INC. – ELECTRIC DIVISION

Docket No. R-2021-3023618

Exhibit to Accompany

the

Surrebuttal Testimony

of

Ethan H. Cline

Bureau of Investigation and Enforcement

Concerning:

Electric Vehicle Charging Stations
Battery Storage Project
Utility Plant-in-Service
Annual Depreciation Expense
Accumulated Depreciation
Rate Base
Future Test Year and Fully Projected Future Test Year Reports
Customer Charge
Scale Back of Rates

UGI UTILITIES, INC. - ELECTRIC DIVISION
R-2021-3023618
Summary of Company Rebuttal Rate Base Adjustments
including updated I&E Surrebuttal Adjustments (without battery storage project)
$ in thousands

Line No.	Description	Company Rebuttal Depreciated Original Cost 9/30/2022 (A)		Company Rebuttal Depreciated Original Cost 9/30/2022 (B)	Company Rebuttal Depreciated Original Cost 9/30/2022 (C)		I&E Rate Base Adjustment (D)	I&E Depreciated Original Cost 9/30/2022 (E)
1	**Total Utility Plant In Service**	**$226,945**	**$**	**235**	**$227,180**	**$**	**(1,500)**	**$225,680**
2	Accumulated Depreciation	$74,795	$	34	$74,829	$	126	$74,955
3	**Net Utility Plant In Service**	**$152,150**	**$**	**201**	**$152,351**	**$**	**(1,626)**	**$150,725**
4	***Add:***							
	Materials And Supplies	$1,309	$	166	$1,475	$	-	$1,475
	Cash Working Capital	$7,657	$	61	$7,718	$	-	$7,718
5								
6	**Deduct:**							
7	Accumulated Deferred Income Taxes	$28,088	$	-	$28,088	$	-	$28,088
8	Customer Deposits	$1,197	$	(135)	$1,062	$	-	$1,062
9	**Sub-Total**	**($20,319)**	**$**	**362**	**($19,957)**	**$**	**-**	**($19,957)**
10	**Total Measure of Value**	**$131,831**	**$**	**563**	**$132,394**	**$**	**(1,626)**	**$130,768**

UGI UTILITIES, INC. - ELECTRIC DIVISION
R-2021-3023618
Summary of Company Rebuttal Rate Base Adjustments
including updated I&E Surrebuttal Adjustments (with battery storage project)
$ in thousands

Line No.	Description	Company Rebuttal Depreciated Original Cost 9/30/2022 (A)		Company Rebuttal Depreciated Original Cost 9/30/2022 (B)	Company Rebuttal Depreciated Original Cost 9/30/2022 (C)		I&E Rate Base Adjustment (D)	I&E Depreciated Original Cost 9/30/2022 (E)
1	**Total Utility Plant In Service**	**$226,945**	**$**	**235**	**$227,180**	**$**	**-**	**$227,180**
2	Accumulated Depreciation	$74,795	$	34	$74,829	$	170	$74,999
3	**Net Utility Plant In Service**	**$152,150**	**$**	**201**	**$152,351**	**$**	**(170)**	**$152,181**
4	***Add:***							
	Materials And Supplies	$1,309	$	166	$1,475	$	-	$1,475
	Cash Working Capital	$7,657	$	61	$7,718	$	-	$7,718
5								
6	**Deduct:**							
7	Accumulated Deferred Income Taxes	$28,088	$	-	$28,088	$	-	$28,088
8	Customer Deposits	$1,197	$	(135)	$1,062	$	-	$1,062
9	**Sub-Total**	**($20,319)**	**$**	**362**	**($19,957)**	**$**	**-**	**($19,957)**
10	**Total Measure of Value**	**$131,831**	**$**	**563**	**$132,394**	**$**	**(170)**	**$132,224**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
v.	:	Docket No. R-2021-3023618
UGI Utilities, Inc. – Electric Division Base Rates	:	

WITNESS VERIFICATION
THE BUREAU OF INVESTIGATION AND ENFORCEMENT

I, John Zalesky, on behalf of the Bureau of Investigation and Enforcement, hereby verify that the documents preliminarily identified as:

- I&E Statement No. 1 PROPRIETARY and NON-PROPRIETARY; I&E Exhibit No. 1 PROPRIETARY and NON-PROPRIETRAY;
- I&E Statement No. 1-SR PROPRIETARY and NON-PROPRIETARY; I&E Exhibit No. 1-SR PROPRIETARY and NON-PROPRIETRAY.

were prepared by me or under my direct supervision and control. Furthermore, the facts contained therein are true and correct to the best of my knowledge, information and belief and I expect to be able to prove the same at an Evidentiary Hearing in this matter. This Verification is made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

/s/ John Zalesky
John Zalesky
Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement

Dated: June 16, 2021

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	
v.	:	Docket No. R-2021-3023618
	:	
UGI Utilities, Inc. – Electric Division Base Rates	:	

WITNESS VERIFICATION
THE BUREAU OF INVESTIGATION AND ENFORCEMENT

I, Anthony D. Spadaccio, on behalf of the Bureau of Investigation and Enforcement, hereby verify that the documents preliminarily identified as:

- I&E Statement No. 2, and I&E Exhibit No. 2;
- I&E Statement No. 2-R;
- I&E Statement No. 2-SR.

were prepared by me or under my direct supervision and control. Furthermore, the facts contained therein are true and correct to the best of my knowledge, information and belief and I expect to be able to prove the same at an Evidentiary Hearing in this matter. This Verification is made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

*/s/ Anthony D. Spadaccio*___________
Anthony D. Spadaccio
Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement

Dated: June 16, 2021

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	
v.	:	Docket No. R-2021-3023618
	:	
UGI Utilities, Inc. – Electric Division Base Rates	:	

WITNESS VERIFICATION
THE BUREAU OF INVESTIGATION AND ENFORCEMENT

I, Ethan H. Cline, on behalf of the Bureau of Investigation and Enforcement, hereby verify that the documents preliminarily identified as:

- I&E Statement No. 3 and I&E Exhibit No. 3.
- I&E Statement No. 3-SR and I&E Exhibit No. 3-SR

were prepared by me or under my direct supervision and control. Furthermore, the facts contained therein are true and correct to the best of my knowledge, information and belief and I expect to be able to prove the same at an Evidentiary Hearing in this matter. This Verification is made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

/s/ Ethan H. Cline
Ethan H. Cline
Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement

Dated: June 16, 2021