UGI
CORPORATION

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December 12, 2013

VIA ELECTRONIC FILING

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

Re: Investigation of Pennsylvania's Retail Natural Gas Supply Market; Docket No. I-2013-2381742

Dear Secretary Chiavetta:

Enclosed please find the comments of UGI Energy Services, LLC to the Commission's Order entered September 12, 2013 in the above-captioned proceeding. Should you have any questions concerning this submission, please feel free to contact me at (610)-992-3750.

Respectfully yours,

Melanie J. El Atieh
Attorney for UGI Energy Services, LLC

Enclosure

Cc: Office of Competitive Market Oversight (via e-mail at ra-OCMO@state.pa.us)

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Investigation of Pennsylvania's Retail Natural Gas Supply Market	:	**Docket No. I-2013-2381742**

COMMENTS OF UGI ENERGY SERVICES, LLC

I. INTRODUCTION

On September 12, 2013, the Pennsylvania Public Utility Commission ("Commission") launched a formal investigation into the current status of Pennsylvania's retail natural gas market pursuant to its *Investigation of Pennsylvania's Retail Natural Gas Supply Market Order* entered in Docket No. I-2013-2381742 ("Investigation Order"). As explained in the Investigation Order, the purpose of the Commission's investigation is "to assess whether effective competition exists and make recommendations for improvements to ensure that a properly functioning and workable competitive retail natural gas market operates in the state."

In the Investigation Order, the Commission expressed concern over a certain shopping statistic, stating that "the number of customers purchasing gas from a competitive supplier remains dismal at less than thirteen percent on a statewide basis," and expressing belief that there could be "more opportunities for customers to benefit from robust competition in the retail natural gas market." At the same time, the Commission recognized the "tremendous natural gas resources that exist in the Commonwealth," expressing belief that "as access to this abundant resource becomes increasingly available and the necessary infrastructure is built-out...it is important to ensure that consumers have opportunities to realize the advantages of a robust and effective natural gas industry."

To address its concerns, the Commission solicited responses to a list of questions set forth in the Investigation Order on or before December 12, 2013. UGI Energy Services, LLC ("UGI ES" or the "Company") hereby respectfully submits these comments in response to the Commission's Investigation Order.

II. RESPONSES TO QUESTIONS IN THE INVESTIGATION ORDER

As one of the largest competitors of natural gas supply and midstream services in the Commonwealth, as well as a sizeable regional supplier of natural gas in retail markets across the Mid-Atlantic and Northeast regions,[1] UGI ES speaks from experience in terms of responding to the questions set forth in the Investigation Order.

UGI ES supports the Commission's efforts to broadly examine possible solutions to increase customer participation in natural gas markets as well as to harvest the benefits from abundant, local resources of natural gas. As a marketer of natural gas, electricity and liquid fuels

[1] For a more complete description of the Company's profile, *see infra* Section III.

to residential, commercial, industrial, institutional and government customers in nine states, including Pennsylvania, and the District of Columbia, UGI ES fully believes retail markets function at their best when customers, regardless of which class they belong to, are provided accurate, timely and relevant information and are thus able to make affirmative and informed choices to fulfill their energy commodity needs. The identification and implementation of retail market enhancements that align with and achieve such market attributes will lead to more choice overall and lower prices for consumers.

The Marcellus Shale and other indigenous shale plays present tremendous opportunities for all natural gas industry stakeholders in Pennsylvania. The strategic focus of state and national energy policymakers should be to promote necessary capital investments in natural gas infrastructure in order to increase the availability of natural gas in existing and emerging local and national markets. This focus should include, among other things, the Commission's consideration of crucial initiatives that will directly connect local production and local markets, thus enabling local markets to reduce their dependence on long-line pipeline contracts designed to ship gas 1,800 miles from Texas to Northeast markets.

Set forth below are each of the Commission's questions listed in the Investigation Order, followed by UGI ES' response to each question.

1. ***What is the current status of retail natural gas competition for customers, by class and by service territory, and for NGSs? For each such customer class and service territory, how accessible are competitive suppliers?***

UGI ES recognizes the Commission's concern about the low number of customers currently purchasing gas from competitive suppliers, especially among residential customers, in Pennsylvania's natural gas retail markets. As the Investigation Order points out, only 13% of gas customers in Pennsylvania are shopping, according to the Commission's natural gas shopping statistics as of October 31, 2013.[2] The shopping statistics also show that only a modest amount of residential customers, both in terms of residential gas load and number of customers, is directly participating in the natural gas retail market. Specifically, only 12.3% of residential gas load is being supplied by natural gas suppliers ("NGSs"), representing only 12% of residential gas customers in the state.

UGI ES believes that these numbers demonstrate that change is needed in Pennsylvania's natural gas retail market in order to promote higher levels of customer participation in the retail markets – specifically, in enabling customers to make affirmative and informed choices about how their natural gas supply needs are fulfilled. Such change need not take the form of a marketplace restructuring entailing the removal of the natural gas distribution companies ("NGDCs") from the supplier of last resort ("SOLR") role, however. Rather, UGI ES believes the implementation of the certain improvements to the market, some of which may require legislative change, will go a long way in helping Pennsylvania's natural gas consumers become more active participants in natural gas choice. The Commission's shopping statistics support this notion and exhibit a generally more positive picture of retail competition than the Investigative Order suggests. In particular, the 13% of gas customers in Pennsylvania currently shopping for

[2] Available at http://www.puc.state.pa.us/NaturalGas/pdf/GasSwitch/GasSwitch_ShoppingNumbers_103113.pdf.

their natural gas supply represents 81% of total natural gas load in Pennsylvania. To translate, this means a minority of natural gas customers make up a super-majority of the state's natural gas load, and the super-majority of gas load is currently being supplied by NGSs rather than NGDCs. This pattern holds true among the commercial and industrial commercial customer classes. For example, 99.5% of industrial gas load is being supplied by NGSs, constituting 61.1% of industrial gas customers in the state. This means a majority of industrial gas customers are shopping and nearly all of industrial gas load is being supplied by the retail market. Among commercial customers, 67.4% of commercial gas load is being supplied by NGSs, constituting 25% of commercial gas customers in the state. Again, a minority of commercial customers constitutes a super-majority of the commercial gas load, and a super-majority of commercial gas load is being supplied by the retail market.

Additionally, this notion is supported by the fact that some NGDC service territories exhibit healthier shopping numbers than others. For example, residential shopping is significantly higher in the NGDC service territories of Columbia Gas (27.9% of residential customers are shopping, constituting 29.8% of residential gas load) and Peoples Natural Gas (25% of residential customers are shopping, equating to 24% of the residential gas load). This suggests there could possibly be factors or conditions particular to certain NGDC service territories that may be more or less favorable toward retail competition. The Commission should identify and examine, as part of this proceeding, any such factors that may contribute higher customer participation.

Furthermore, we believe the need for fine-tuning Pennsylvania's current natural gas retail markets, as opposed to restructuring it, is supported by the benefits experienced by those customers that have actually shopped for their natural gas supply. Customers who have selected NGSs to satisfy their natural gas requirements likely have enjoyed tangible benefits in terms of cost savings, price stability, enhanced services and innovative products. We believe this claim is supported by the fact that customer migration rates have gone up and remained generally high among commercial and industrial customers. We also believe it is supported by the fact that over the past five years, from October 2008 through October 2013, the number of residential customers shopping for their natural gas supply has increased by approximately 105%.[3]

As stated above, UGI ES believes there is room for improvement within the current natural gas retail market in Pennsylvania. We believe low migration rates among residential customers does not necessarily mean the market is unable to provide value to these customers, but we do think it is a symptom of NGSs not being able to effectively translate this value to customers due to distorted price signals customers receive from the NGDC serving in the SOLR function. As explained in more detail below, we propose the implementation of certain improvements to the price to compare ("PTC") as well as other factors contributing to distorted price signals. UGI ES fully supports providing accurate, timely and relevant information to consumers to facilitate their ability to make affirmative and informed decisions about competitive offers from NGSs and believes the Commission plays a vital role as steward of

[3] As of October 1, 2008, 154,292 residential customers were shopping. *See* Pennsylvania Office of Consumer Advocate, Pennsylvania Natural Gas Shopping Statistics, October 1, 2008. The Commission's most recent shopping statistics show that 316,606 residential customers were shopping as of October 31, 2013. This constitutes a rate of change equal to approximately 105%.

competition to reduce or eliminate any existing informational barriers to customer participation in the retail marketplace.

2. ***Are currently effective NGDC rates properly structured to reflect the separation between the costs of the NGDC's role as a distribution utility and its role as a SOLR?***

UGI ES generally believes the changes directed by the Commission in its Revised Final Rulemaking Order entered on June 23, 2011 at Docket No. L-2008-2069114, along with the 1308(a) tariff filings made by the individual NGDCs in compliance with the Commission's Order,[4] have made significant progress in simplifying the current PTC, which helps to give consumers a better basis for effectively comparing market offers from NGSs to the rates offered by NGDCs for SOLR service.

Nevertheless, UGI ES is concerned that the current PTC is not reflective of current market prices. First, calling the rate that the NGDC charges consumers for SOLR service as the "price to compare" is a misnomer. The rate the NGDC charges for SOLR service should be called the "SOLR Rate" and customers should be informed that the SOLR Rate is reflective of the costs of providing backstop service and thus inclusive of a number of factors that they would not necessarily pay if they selected a NGS to serve their natural gas supply needs.

To that end, we recommend creating a PTC that is separate and distinct from the SOLR Rate. The PTC should be market-reflective and set at a monthly market index (e.g. NYMEX) plus the volumetric upstream transport costs and some fixed delivery adder that reflects the demand charges to deliver gas to the NGDC's city gate. The PTC should adjust on a monthly basis to reflect changes in the market index as well as any changes in the adder. A market-reflective PTC would present more relevant and accurate information to consumers about their options and promote greater understanding of what is included in the NGDCs' SOLR Rate, especially the factors designed to recover the NGDCs' over or under collections from prior periods, and thus allow for a more meaningful comparison by consumers of the SOLR Rate against the NGSs competitive offerings.

To allow for such a meaningful comparison, the NGDC's SOLR Rate should include what is currently included in the PTC today[5] but should be adjusted on a monthly basis, rather than quarterly, to be more reflective of market prices and to minimize distortions created by under/over collections. To be clear, we believe NGDCs should continue to be permitted to fully recover their actual costs through reconciliations, but performing such reconciliations on a quarterly basis means the SOLR Rate essentially serves as a three-month fixed price offering from the SOLR, which provides less room for NGSs to compete on product offerings. Additionally, the time lag in truing up the NGDCs' actual/projected costs significantly distorts

[4] Under the Commission's direction, the NGDCs' PTCs were reformulated into a single rate on customer's bill, adjusted quarterly, consisting of the following four elements: (1) Section 1307(f) gas cost rate (or "c-factor"); (2) 1307(f) "e-factor" reconciliation for over and under collections; (3) gas procurement charge ("GPC"); and (4) merchant function charge ("MFC"). In addition, the NGDCs' natural gas procurement costs were removed from delivery rates and shifted to the non-reconcilable GPC, and the costs of uncollectible expenses associated with natural gas procurement were also removed from delivery rates and included in the non-reconcilable MFC.
[5] *See supra* note 4.

price signals available to customers for comparing their options. For example, fall and winter SOLR Rates may artificially reflect warmer weather gas costs, which is not reflective of current market prices. Increasing the frequency of the reconciliations to at least a monthly basis will minimize the pricing distortions created by the lag and provide NGSs greater ability to compete on price and product offerings.

UGI ES believes the Commission has the authority to increase the frequency of the adjustments of the SOLR Rate through regulation; however, to do so under the current law would also require the NGDC to offer to retail customers a fixed-rate option which recovers natural gas costs over a 12-month period, subject to annual reconciliation.[6] A model where the SOLR offers a long-term, fixed price, however, would be harmful to the continued development of retail choice as it would provide less room for NGSs to compete on product offerings. Accordingly, we believe a legislative solution is required to de-couple the NGDCs' ability to adjust the SOLR Rate on a monthly basis, which is favorable for competition, from the obligation to also offer such a 12-month fixed price, which is harmful to competition.

Furthermore, we support removing any financial incentive NGDCs may have to underestimate their gas costs and thus set their SOLR Rates artificially low to collect a carrying charge on the under collection. We also support the elimination of the migration rider that customers are forced to pay when they switch. As stated above, we fully support the NGDCs' continued ability to recover their actual costs through reconciliations; however, applying such costs as a rider charge to customers when they switch serves as a significant disincentive to being active in retail markets. The aforementioned initiatives, we believe, also require legislative action to implement.

UGI ES believes the changes described above would send more accurate price signals to the market and would likely drive higher numbers of customers to participate in the marketplace in order to secure price stability and/or savings from marketers.

3. ***Does the existing market design of NGDCs serving as the SOLR present barriers that inhibit customer choice or prevent suppliers from fully participating in the retail market?***

UGI ES believes that having a backstop service available to residential and small-volume customers is beneficial for competition and choice. UGI ES believes that having the NGDC serve in this function does not, by itself, create barriers to retail gas choice nor does it prevent gas suppliers from fully participating in the retail gas market. Rather, as explained above, UGI ES believes that the lack of accurate, timely and relevant market information creates barriers to choice. Indeed, UGI ES believes the NGDC is the "honest broker" for providing a SOLR Rate for customers who take backstop service and for performing the most crucial role of the SOLR function – that is, system reliability planning and entering into the necessary long-term pipeline capacity contracts, storage contracts and/or other assets, such as long-term supply arrangements with Marcellus producers or midstream peaking services, to ensure the reliable delivery of natural gas supply for choice customers.

[6] *See* 66 Pa. C.S. § 1307(f)(ii).

4. *Should NGDCs continue in the role of SOLR?*

Yes, for the sake of the reliability of natural gas retail markets in Pennsylvania and for creating the right incentives to connect local gas production to local natural gas markets in Pennsylvania.

There are significant differences between the electric and natural gas industries in terms of reliability planning and, given the natural gas industry's lack of an area-wide reliability planner, like PJM, UGI ES recognizes the need for the NGDCs to continue in the important function of ensuring, through contract, that sufficient gas delivery assets will be available to meet the peak period requirements of its core market customers, so long as such assets or their functional equivalents follow the customer and are assigned to NGSs when customers shop to ensure a fair and non-discriminatory marketplace.

Reliability planning by local distribution companies is a fundamental feature of the natural gas industry, the importance of which is particularly highlighted by the growing demand for natural gas across the nation, including among local distribution companies, retail suppliers, industrial customers, gas-fired electric generators and natural gas fueling stations, which will increasingly rely upon the interstate pipeline systems for fuel. New and existing demand will be competing for both firm and interruptible transportation and the higher the demand, the scarcer these resources will become. It is important to remember that the failure to maintain an adequate long-term commitment to firm pipeline capacity contracts, which takes several years to build, or some mix of suitable long-term alternatives to such pipeline capacity, such as long-term Marcellus supply arrangements or midstream peaking services, may result in the inability to reliably meet the supply obligations of core market customers on the highest demand day (e.g. the coldest peak day). Given this, we strongly believe the reliability function of the SOLR role is best provided by the NGDCs and that it cannot be transitioned to NGSs.

Moreover, by continuing as the SOLR, NGDCs maintain a longer-term perspective that is required to encourage investments in infrastructure to connect Pennsylvania-produced gas resources to NGDC systems. As a developer of midstream assets in the Marcellus region, UGI ES can attest to the critical role that long-term contractual commitments made by midstream customers have played and continue to play in attracting capital investments to build midstream infrastructure. For example, UGI ES recently invested capital to extend its Auburn gathering system to transport natural gas from Wyoming County, Pennsylvania through a newly constructed pipeline to an interstate pipeline in Luzerne County, Pennsylvania. This gathering line now provides a direct connection between local production and local markets (the UGI Penn Natural Gas, Inc. distribution system), thus enabling local markets to reduce their dependence on long-line pipeline contracts. Pennsylvania is uniquely positioned to encourage more of the same or similar arrangements to reap the benefits available from local natural gas shale plays. However, the right incentives and partnerships must exist to encourage midstream infrastructure development in order to fully realize those benefits. In other words, policymakers play a crucial role in encouraging the necessary build-out of natural gas infrastructure, and should keep in mind that the current configuration of interstate transportation systems is largely the product of long-term contractual commitments made by local distribution companies to the pipeline companies over many years. To that end, the Commission's policies and regulations developed as an outcome of this investigation will serve an important role for encouraging investments in infrastructure to connect local production to local markets. Keeping the NGDC in the SOLR role and encouraging the inclusion of local production arrangements to meet reliability planning obligations are such important policies.

5. ***Are there enhancements and updates to the current SOLR model that would further improve the state of competition within the retail natural gas market?***

Please see the Company's response to question 2 above.

UGI ES recognizes that the Natural Gas Choice and Competition Act, effective July 1, 1999, 66 Pa. C.S. §§ 2201-2212 ("Competition Act") contemplates three distinct possibilities for the NGDC to exit the SOLR function.[7] As the legislature recognized the importance of keeping the SOLR function and system reliability planning with the NGDC, it established administrative processes for approving an alternative SOLR provider, which presumably would include a consideration of whether the alternative SOLR stepping into the SOLR role, particularly in the system reliability planning role, is in the public interest. However, unless a demonstration is made that the NGDC can be relieved of the SOLR obligation in a way that would maintain system reliability and promote the public interest, UGI ES supports the NGDC continuing in the SOLR role for the reasons explained above.

For the record, UGI ES does not believe Senate Bill ("SB") 1121 addresses the reliability issues that are a reality in the natural gas industry and, therefore, cannot serve as an adequate solution for natural gas retail markets. In addition, UGI ES does not believe SB 1121 exposes default service customers to market-reflective prices necessary for consumers to make informed choices about the options available to them. Rather, it takes a model in which the electric distribution company ("EDC") offers a fixed price provider of last resort ("POLR") product and replaces it with a model in which the EGS offers a 12-month fixed price POLR product. Consistent with our comments above, UGI ES believes a better, more transparent, model is one in which the default service provider offers only one, market-reflective product, which is compared against a separate, market-reflective PTC. Such a model, we believe, would better allow customers to make informed choices about the options available to them, even if such informed choice is to remain with default service. Furthermore, we note that other states have adopted models similar to SB 1121 in natural gas markets. We note, however, that in the case of Ohio, for example, customers receiving the alternative default service product are considered default service customers, not choice customers, and the local distribution companies still maintain a role in reliability planning.

a. ***Are there opportunities through the potential restructuring of the SOLR model and retail gas market to encourage expansion of natural gas distribution facilities into areas of the Commonwealth that do not currently have access to natural gas facilities?***

NGDCs certainly should be encouraged to reliably upgrade and maintain their distribution systems, and expand in a cost-effective manner as needed, to fully realize the benefits from the local shale plays.

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[7] *See* 66 Pa. C.S. § 2207.

b. ***Are there changes to the retail natural gas market that the Commission can undertake de novo through regulation or policy that would promote retail natural gas competition?***

As explained in more detail in response to question 2 above, UGI ES believes the Commission has the authority to establish through regulation a PTC that is separate and distinct from the NGDCs' SOLR Rate. We believe the remaining solutions we proposed in response to question 2 above to improve natural gas retail markets require legislative change.

c. ***Are there changes to the retail natural gas market that the Commission can undertake de novo through regulation or policy that would remove barriers to retail natural gas competition?***

See the response above.

d. ***What legislative changes should be made to further improve the retail natural gas market in Pennsylvania?***

As described in response to question 2 above, UGI ES supports ongoing legislative efforts to eliminate the migration rider and any potential incentive NGDCs may have to underestimate their gas costs and collect a carrying charge for it. We also support legislative solutions to de-couple the NGDCs' existing ability to adjust the SOLR Rate on a monthly basis, which is favorable for competition, from the obligation to also offer such a 12-month fixed price, which is harmful to competition.

In addition, UGI ES encourages the Commonwealth to consider legislative change that requires an annually increasing percentage of natural gas sold to retail customers in Pennsylvania originates from local shale production. Such a supply portfolio requirement or "Marcellus mandate" would be akin to a renewable portfolio standard in the electric industry that favors renewable energy production. Such a mandate would be in the public interest as it would promote capital investment in natural gas infrastructure in the Marcellus and Utica Shale regions while increasing consumers' access to lower-cost local supply.

6. ***Are there outcomes from the Commission's recently completed electric RMI that would be applicable and useful to implement in the retail gas market? To the extent possible, please provide comments on the following topics:***

   a. ***Seamless Move***

   b. ***Accelerated Switching Timeframes***

   c. ***Standard Offer Program***

   d. ***Low-income customer shopping***

   e. ***Expanded Consumer Education about shopping***

f. Any additional RMI initiative that would translate well to the retail natural gas market

UGI ES supports full and self-determining customer choice. UGI ES believes that empowering consumers to proactively shop for and affirmatively choose their retail suppliers, along with equipping customers with accurate, timely and relevant information, results in a robust marketplace where suppliers vigorously compete for market share.

UGI ES generally supports seamless move and accelerated switching timeframes. It also supports customer referral programs that enhance the NGDCs' customer representatives' interaction with customers regarding natural gas choice, such as the New and Moving Customer Referral Programs. Such programs are intended only to share general information about competitive alternatives to SOLR service, including information about the PAGasSwitch.com website, and utilize "hot transfers" to facilitate switches. UGI ES supports such programs in increasing customer knowledge about the options available to them. UGI ES does not support, however, a Standard Offer Program that is designed to have the NGDCs effectively step into the shoes of NGSs to market choice and products on their behalf. As stated in its comments in the electric RMI proceeding, UGIES believes a NGDC should not encourage one type of product offering (*i.e.*, a standard price discount from the PTC) over another or one NGS (*i.e.*, even if that NGS is picked through random assignment) over another, but should be in the neutral role of providing information regarding choice so the customer can make an informed decision.

UGI ES supports the ability of low-income customers to shop for natural gas and to be able to select from any NGS supply offers made available to them in the market. Because we support customers having access to accurate, timely and relevant information, we also support appropriately-designed customer education initiatives, although we believe that efforts should be concentrated to provide customers proper price signals as it will lessen the need for a more comprehensive customer education program.

7. To take advantage of the opportunity that is present through the Marcellus Shale resource, should NGDCs and NGSs be encouraged to explore opportunities with natural gas exploration and production companies?

It is UGI ES' opinion that, with some exceptions, NGDCs are overlooking opportunities to incorporate lower cost, long-term local supply arrangements and/or midstream services into their reliability planning portfolios. As explained above, Pennsylvania is uniquely positioned to encourage unique midstream services arrangements to reap the benefits available from the local natural gas shale plays. However, the right incentives and partnerships must exist to encourage mid-stream infrastructure development in order to fully realize those benefits. Accordingly, the Commission should require NGDCs to actively pursue such potential arrangements in connection with carrying-out their reliability planning obligations.

Pennsylvania is the center of Marcellus development, particularly of "dry gas" which means that the gas produced is ready for use by consumers without extensive processing. Currently, this gas is trapped in several places because of a lack of infrastructure to move gas to local markets. Local consumption of local gas is important for Pennsylvania because it reduces transport costs for Pennsylvania consumers to the cost of delivering that gas locally as opposed to moving the gas in interstate markets, and it assures that producers will invest in Pennsylvania, creating jobs for Pennsylvanians and bringing revenue into the Commonwealth.

To encourage NGSs to explore Marcellus opportunities, UGI ES also recommends the Commission revise its Natural Gas Glossary of Terms to include a "Marcellus" label, akin to the "organic" or "green" labels customers see when shopping for other household supplies. Creating a defined label will allow customers to make an informed decision about a NGS' product offering. NGSs should be prohibited from advertising a Marcellus product unless it can demonstrate that a portion of its supply portfolio originates from the Marcellus and meets the Commission's definition of the Marcellus supply label.

Finally, as explained in response to question 5(d) above, Pennsylvanians would benefit from a supply portfolio standard favoring local natural gas production, akin to a renewable portfolio standard in the electric industry that favors renewable energy production. UGI ES encourages the Commonwealth to consider legislative change that requires that an annually increasing percentage of natural gas sold to retail customers in Pennsylvania comes from local natural gas production.

8. ***Recognizing that the Commission withdrew the proposed rulemaking addressing NGDC business practices at Docket No. L-2009-2069117 and committed to commencing a new proposed rulemaking on these issues, please provide comments on the continued need to address standardized supplier tariffs and business practices with regard to imbalance trading, tolerance bands, cash out and penalties, nominations and capacity.***

To the extent it is possible, standardization of supplier tariffs and business practices may potentially simplify operations for suppliers; however, in UGI ES's opinion, standardization is not necessary in order to allow suppliers to effectively compete. What is important for suppliers to effectively compete is that the rules of the road are reasonable, non-discriminatory, transparent and predictable. UGI ES has been operating under the supplier tariffs and business practices of local distribution companies since 1995. It currently operates behind 33 local distribution companies across seven state jurisdictions and in all NGDC service territories in Pennsylvania. Based on this experience, it believes that the Pennsylvania NGDCs' supplier tariffs and business practices generally fit the bill. As a result, it creates an even playing field and a degree of regulatory certainty for competitive suppliers.

III. DESCRIPTION OF UGI ENERGY SERVICES, LLC

UGI ES is the wholly owned, marketing, midstream and power generation subsidiary of UGI Corporation. In 1985, UGI Corporation established the trade name, Gasmark, as one of the first marketers to sell natural gas to business users in the deregulated marketplace. In 1995, UGI ES was formed as a separate, Pennsylvania-based[8] company to pursue the opportunities created by federal and state deregulation of electricity and natural gas commodity supply markets, direct

[8] UGI ES currently has approximately 215 employees and maintains a central office in Wyomissing, Pennsylvania, with regional offices in the following areas: Wilkes-Barre Pennsylvania, York, Pennsylvania, Port Allegany, Pennsylvania, Pittsburgh, Pennsylvania, Baltimore, Maryland, Moorestown, New Jersey, Albany, New York, Rochester, New York and Hudson, Ohio.

access and customer choice. UGI ES is now an integrated energy marketing and asset-based company operating throughout the Northeast and Mid-Atlantic regions. UGI ES markets natural gas, electricity and liquid fuels, now under the trade name UGI EnergyLink, to approximately 17,000 commercial, industrial, institutional, government, and residential customers at approximately 41,000 locations in nine states as well as the District of Columbia. Additionally, UGI ES buys and sells energy commodities at the wholesale level and owns and operates a variety of electric generation assets in Pennsylvania as well as a variety of midstream natural gas assets that support the storage, transportation and delivery of natural gas.

In Pennsylvania, UGI ES has operated as a Commission-licensed natural NGS and electric generation supplier ("EGS")[9] since the inception of retail choice, providing competitively-priced and innovative product offerings to small, medium and large commercial and industrial customers located within all of the NGDC and EDC service territories throughout the Commonwealth of Pennsylvania. UGI ES also now actively markets to residential customers located in certain NGDC and EDC service territories in Pennsylvania.

In connection with its natural gas midstream business, UGI ES has made and continues to make numerous investments in infrastructure projects to support the development of natural gas in the Marcellus Shale region of Pennsylvania. It has created "Midstream Services" to connect local gas to local markets. Through this service, UGI ES provides producers, local distribution companies and marketers the assets and services they need to serve their customers efficiently and reliably.

UGI ES operates a natural gas liquefaction, storage and vaporization facility in Temple, Pennsylvania ("Temple Facility"), and propane storage and propane-air mixing stations in Bethlehem, Reading, Hunlock Creek, and White Deer, Pennsylvania. It also operates propane storage, rail transshipment terminals, and propane-air mixing stations in Steelton and Williamsport, Pennsylvania. These assets are used in UGI ES' energy peaking business that provides supplemental energy, primarily liquefied natural gas and propane-air mixtures, to gas utilities on interstate pipelines at times of high demand (generally during periods of coldest winter weather). In fiscal year 2013 (e.g. October 1, 2012 through September 30, 2013), UGI ES expanded its energy peaking services at the Temple Facility and sold liquefied natural gas to customers for use by trucks, drilling rigs, other motor vehicles and facilities located off the gas grid. UGI ES also manages storage capacity owned by UGI ES as well as certain natural gas pipeline and storage contracts for UGI Utilities, which is subject to a competitive bid process per the annual 1307(f) proceeding.

A wholly owned subsidiary of UGI ES owns and operates underground natural gas storage and related high pressure pipeline facilities, which have FERC approval to sell storage

[9] The Commission authorized UGI Energy Services, LLC's ("UGI ES, LLC's") predecessor – UGI Energy Services, Inc. ("UGI ES, Inc.") – to serve as an EGS at Docket No. A-110076 on July 24, 1998, and as a NGS at Docket No. A-125018 on October 19, 1999. On October 1, 2013, UGI ES, Inc. undertook an intra-corporate merger solely for the purpose of converting its corporate form of organization from a Pennsylvania corporation to a Pennsylvania limited liability company, and sought prior Commission approval to transfer its NGS and EGS licenses to the resulting LLC entity, UGI ES, LLC. On September 12, 2013, the Commission authorized the transfer of the NGS and EGS licenses of UGI ES, Inc. to UGI ES, LLC pursuant to separate Orders and Secretarial Letters entered in Docket Nos. A-2013-2369286 and A-2013-2369288, respectively.

services at market-based rates. The storage facilities are located in the Marcellus Shale region of Pennsylvania and have a total storage capacity of 15 million dekatherms (Dth) and a maximum daily withdrawal quantity of 224,000 Dth. In fiscal year 2013, UGI ES leased more than 70% of the capacity at its underground natural gas facilities to third parties. In fiscal year 2013, UGI ES also began operating a new compressor station and is now able to receive natural gas from Tennessee Gas Pipeline for injection into the storage facility on a firm basis throughout the year.

In addition, UGI ES invested capital to extend its Auburn gathering system to transport natural gas from Wyoming County, Pennsylvania through a newly constructed pipeline to an interstate pipeline in Luzerne County, Pennsylvania. This project is complete and will become fully operational during fiscal year 2014. Upon completion, the gathering system will provide for (i) expanded capacity through additional compression and (ii) additional delivery options by connecting the region served by UGI Penn Natural Gas, Inc. and two interstate pipelines with Marcellus producers. This gathering line now provides a direct connection between local production and local markets, thus enabling local markets to reduce their dependence on long-line pipeline contracts designed to ship gas 1,800 miles from Texas to Northeast markets.

Future planned investments are expected to cover a range of new midstream asset opportunities, including interstate pipelines, local gathering systems and gas storage facilities and complementary and related investments in natural gas exploration, production and refining.

IV. CONCLUSION

UGI ES appreciates the Commission's continuing efforts to support retail markets and the development of Marcellus gas supplies in Pennsylvania, and looks forward to working with the Commission to realize the many opportunities which the abundant supplies of natural gas present to the Commonwealth and its citizens.

Respectfully submitted,

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