



UGI Utilities, Inc.
460 North Gulph Road
King of Prussia, PA 19406

Post Office Box 858
Valley Forge, PA 19482-0858

(610) 337-1000 Telephone
(610) 992-3258 Fax

December 12, 2013

VIA E-FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

**Re: Investigation of Pennsylvania's Retail Natural Gas Supply Market,
I-2013-2381742**

Dear Secretary Chiavetta:

Enclosed please find the comments of the UGI Distribution Companies filed in response to the Commission's Order entered on September 12, 2013 at the above docket. Please feel free to contact me with any questions concerning this filing.

Very truly yours,

A handwritten signature in blue ink, appearing to read "Mark C. Morrow". The signature is fluid and cursive, with a long horizontal stroke at the end.

Mark C. Morrow

Counsel for the UGI Distribution Companies

The Commonwealth's natural gas distribution companies ("NGDCs") are similar to the Commonwealth's electric distribution companies ("EDCs") in that both own and operate grids to distribute energy primarily delivered by transmission systems which connect such distribution systems to geographically dispersed sources of production. They are significantly different, however, because of the fundamental differences between how electricity and natural gas are transported, and these fundamental differences are reflected in federal policies which preclude the easy application of state-level Electric RMI rules to the Commonwealth's natural gas distribution companies ("NGDCs").

Specifically, in the case of Pennsylvania EDCs, FERC-sponsored Regional Transmission Organizations ("RTO") perform the vital role of conducting system planning to ensure that sufficient transmission assets (including a reserve margin) are constructed to meet firm demand, and the entities directed to construct such transmission assets have reasonable assurance of recovering a return on and of their investments through transmission rights or through RTO administered open access electric transmission tariffs rates. Load-serving entities within the RTO, including POLRs, are then able to obtain transmission service to ensure the deliverability of generation supplies without the need for long-term contractual commitments. RTOs also administer capacity and energy markets, and ensure that sufficient generation assets are deployed at all times to meet total system demand. In the event of a load-supplier's failure to perform, including events of insolvency or bankruptcy, the RTO can and will dispatch sufficient electric generation resources to meet the firm service requirements of end-use customers.

This system of regulation has facilitated the exit of the Commonwealth's EDCs from the generation business, and has enabled them, in their current POLR role, to procure

generation supplies in RTO-administered wholesale energy markets without undue reliability concerns. This system of regulation also presents Commonwealth policy makers with the option of considering the transfer of POLR responsibilities to alternative providers to facilitate retail choice without creating undue reliability concerns. It has also enabled retail electric generation markets to develop without a broad-based need for EDCs to assign long-term contractual commitments to retail suppliers to avoid the creation of stranded costs.

Unlike the electric industry, there is no system of federal regulation or RTO-type organization that will ensure the delivery of supplies to the Commonwealth's NGDCs in the event of a supplier default, or which permits easy short-term access to transmission assets with a sufficient degree of reliability to ensure deliveries to meet the requirements of core-market customers in the event of such a default. Instead, each NGDC performs 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 (the "Reliability Function"). Under applicable federal and pipeline rules, ensuring the delivery of supplies through interstate pipeline systems often requires long-term contractual commitments. Alternative supply arrangements, including non-FERC jurisdictional peaking or local production contracts, often also require longer-term contractual commitments to help finance the construction of related facilities, including, in the instance of Marcellus shale or other local supplies, the construction of necessary pipeline facilities to connect local supplies to interstate pipeline or distribution systems to ensure the deliverability of such supplies. NGDCs may also have to rely on gas placed in storage to meet peak day requirements, and under applicable FERC rules may not be able to

transfer storage contracts to third parties without also transferring associated storage inventories. However, under applicable FERC and bankruptcy rules, NGDCs cannot be assured that such storage inventories will return with recalled storage contracts.

In light of these industry differences, it is important that NGDCs remain, at a minimum, in the Reliability Function to ensure the deliverability of gas supplies on a sufficiently firm basis to meet the peak period requirements of their core market customers, unless a NGDC proposes and the Commission finds that special circumstances are present which would permit the transfer of this function to a third party in a way which would maintain reliability and promote the public interest.

II. Response to Commission Questions

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?*

Response: Please see the data set forth below:

UGI Utilities, Inc. – Gas Division				
<i>Month-end 9/30/2013</i>				
Actual Customer Numbers	Residential	Commercial	Industrial	TOTAL
		319,826	34,880	1,369
NGDC Customer Switching Statistics as of 9/30/2013				
Customer Data	Residential	Commercial	Industrial	TOTAL
Number (#) of Customers Using Alternative Suppliers	35,456	10,473	780	46,709
Percent of Customers Using Alternative Suppliers	11.1%	30.0%	57.0%	13.1%

Load Data	Residential	Commercial	Industrial	TOTAL
Customer Load (Mcf) Using Alternative Suppliers	53,677	691,259	5,491,219	6,236,155
Total Customer Load (Mcf)	443,559	875,971	5,500,020	6,819,550
Percent of Load From Alternative Suppliers	12.1%	78.9%	99.8%	91.4%

UGI Penn Natural Gas, Inc.				
<i>Month-end 9/30/2013</i>				
	Residential	Commercial	Industrial	TOTAL
Actual Customer Numbers	146,437	15,871	215	162,523
NGDC Customer Switching Statistics as of 9/30/2013				
Customer Data	Residential	Commercial	Industrial	TOTAL
Number (#) of Customers Using Alternative Suppliers	922	3,915	152	4,989
Percent of Customers Using Alternative Suppliers	0.6%	24.7%	70.7%	3.1%

Load Data	Residential	Commercial	Industrial	TOTAL
Customer Load (Mcf) Using Alternative Suppliers	2,252	328,005	2,197,843	2,528,100
Total Customer Load (Mcf)	295,002	437,524	2,200,871	2,933,398
Percent of Load From Alternative Suppliers	0.8%	75.0%	99.9%	86.2%

UGI Central Penn Gas, Inc.				
<i>Month-end 9/30/2013</i>				
	Residential	Commercial	Industrial	TOTAL
Actual Customer Numbers	67,590	10,287	298	78,175
NGDC Customer Switching Statistics as of 9/30/2013				
Customer Data	Residential	Commercial	Industrial	TOTAL
Number (#) of Customers Using Alternative Suppliers	132	1,413	159	1,704
Percent of Customers Using Alternative Suppliers	0.2%	13.7%	53.4%	2.2%

Load Data	Residential	Commercial	Industrial	TOTAL
Customer Load (Mcf) Using Alternative Suppliers	218	164,141	794,578	958,937
Total Customer Load (Mcf)	81,226	231,037	797,417	1,109,680
Percent of Load From Alternative Suppliers	0.3%	71.0%	99.6%	86.4%

UGI currently has thirty active NGSs on its systems. This represents a 150% increase in active NGSs over levels experienced three years ago.

- 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 Supplier of Last Resort (SOLR)?*

Response:

All three UGI Distribution Companies have implemented (a) merchant function charges to recover a reasonable allocation of uncollectible expenses from purchased gas

cost (“PGC”) customers and (b) gas procurement charges, with associated base rate reductions, to recover other gas procurement cost from PGC customers. Also, these charges are now reflected in restructured “prices to compare” which now includes e-factor amounts, all in an effort to present customers with comparable price signals on which to evaluate and select their gas commodity supplier. The merchant function and gas procurement charges were developed through settlements in base rate and other proceedings with active participation by NGSs, and in the view of UGI reflect a fair allocation of all pertinent costs between the distribution function and the SOLR function.

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?*

Response:

UGI believes the existing design, one which was knowingly established by the General Assembly as part of the Natural Gas Choice and Competition Act, may contain inherent limitations to greater customer or supplier participation rates. Such inherent limitations should be acknowledged in the construct of Commission regulation or policy activities, in particular where it can help shape future actions by the General Assembly in evaluating the marketplace or enacting new legislation designed to address or clarify inherent limitations.

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

Response:

UGI believes NGDCs should, at a minimum, continue to play the vital Reliability Function role, and should also remain as the SOLR provider unless they, in their sole

discretion, and with Commission-approval, recommend the transfer of one or both of these functions to a third party in a way which would maintain reliability and promote the public interest.

UGI also believes that if an entity or entities other than the NGDC is to serve as a SOLR, NGDCs should have the clear right to assign gas supply assets or their functional equivalent to such entities to avoid the creation of stranded costs in the same manner as UGI does today for Choice Suppliers.

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?*
 - 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?*

Response:

UGI does not believe a change in the SOLR model would facilitate the expansion of natural gas distribution service.

UGI does believe, however, that a reconsideration of existing line extension policies is in order in light of the significant savings opportunities presented by the now abundant supplies of natural gas in Pennsylvania. To this end, UGI has recently proposed growth extension tariffs (“GET Gas”) to facilitate the extension of its distribution systems into un-served and under-served areas of the Commonwealth. This proposal is the subject of an on-the-record proceeding currently before the Commission at Docket No. P-2013-2356232, and a comprehensive settlement to this proceeding was filed with the presiding Administrative Law Judge on November 6, 2013.

- 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?*

Response:

Except for the items address in response to question 6 below, UGI believes that the Commission has already addressed all or most of the actions it could take absent statutory modifications through its SEARCH process, subsequent rulemakings and other initiatives. UGI does believe that these actions have proven effective in that UGI has had, and continues to have, an expansion of NGS offerings within its service territories. Certainly as NGSs continue to operate under now-current rules, or evaluate potential entry into the Commonwealth market under these rules, refinements to sales and marketing approaches will continue and greater competition is likely to result.

- 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?*

Response:

UGI believes that the Commission has already addressed all or most of the actions it could take absent statutory modifications through its SEARCH process and subsequent rulemakings and other initiatives.

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

Response:

UGI has supported the development of proposed legislation, HB 1188, which would remove the statutory requirement of a migration rider, establish a uniform market-based interest rate for over and under-collections, and permit cost recovery on a full and current basis for cost incurred by NGDCs to implement retail market

enhancements directed by the Commission. UGI continues to support this bill as a method to improve the Commonwealth's retail natural gas market.

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*

Response:

UGI believes that these initiatives specifically identified in subsections (a)-(e) could be applied to enhance retail choice in the gas market, albeit some are dependent on associated NGS interest and participation and some may have material implementation costs related to information system and technology changes (i.e., smart-meters or significant changes in current business processes could be a prerequisite). If any or all of these measures are implemented there should be associated cost recovery mechanisms established to ensure full and current recovery of associated information system and other implementation costs.

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?*

Response:

In general, UGI believes that gas exploration and the development of midstream assets, such as gathering lines, involve investment risks that are more appropriately made by unregulated companies and not by NGDCs and their customers. Clearly, to-date, the unregulated expansion of these activities in the Commonwealth has provided very significant benefits to all natural gas consumers by way of lower wholesale pricing.

However, NGDCs, in performing the Reliability Function, can play an important indirect role in supporting investments in Marcellus Shale projects made by others by entering into gas supply agreements backed by such investments where such gas supply arrangements meet least cost requirements. UGI already actively seeks out and engages in such arrangements as part of its 1307(f) obligations.

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.*

Response:

UGI believes that there are many differing means of designing customer choice programs and associated choice supplier rules. For example, it is the understanding of UGI that at least one NGDC in Pennsylvania requires choice suppliers to deliver a fixed amount each day, and provides all balancing services with appropriate cost recovery mechanisms for associated costs. Others, such as UGI, require variable deliveries each day to reflect changing weather conditions, and provide fewer balancing services at less cost. Differing NGSs may prefer differing program designs in general or for specific distribution systems

given the unique characteristics of such systems. Some choice program designs or requirements may reflect the capabilities or limitations of distribution system designs, portfolio assets or customer information systems existing at the time the programs were implemented, and substantial capital investments in systems and training in procedures almost certainly have been made by each NGDC to accommodate existing Commission-approved designs. Also, cost recovery issues associated with choice programs may have been established through settlement in rate proceedings and reflect the current design of the programs. Given this diversity of program designs, and rational for such diversity, UGI does not believe a single choice program design for all NGDCs would be workable or cost-effective.

UGI does actively reach out to NGSs operating on its system through the formal collaborative process and through other more informal contacts and seeks to implement business process improvements or changes in tariff rules to facilitate retail choice based upon these interactions. For example, in response to NGS suggestions, UGI has proposed and implemented changes to its balancing rules to eliminate annual cash-ins/cash-outs, and modified its direct assignment rules to permit choice suppliers more opportunity to realize the benefits of assigned supply assets or their functional equivalents in secondary markets.

III. Conclusion

UGI 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 at this docket and elsewhere to realize the many opportunities which

the abundant supplies of natural gas present to the Commonwealth and its citizens.

Respectfully submitted,



Mark C. Morrow

Counsel for the UGI Distribution
Companies

Dated: December 12, 2013