**PENNSYLVANIA**

**PUBLIC UTILITY COMMISSION**

**Harrisburg, PA 17105-3265**

Public Meeting held September 11, 2014

Commissioners Present:

Robert F. Powelson, Chairman

John F. Coleman, Jr., Vice Chairman

James H. Cawley

Pamela A. Witmer

Gladys M. Brown

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| Petition of UGI Penn Natural Gas, Inc. for Approval of its Long-Term Infrastructure Improvement Plan Petition of UGI Penn Natural Gas, Inc. for Approval of a Distribution System Improvement Charge |  P-2013-2397056 P-2013-2397056 |
| Office of Consumer Advocate v. UGI Penn Natural Gas, Inc. |  C-2014-2399316 |

**OPINION AND ORDER**

**BY THE COMMISSION:**

Before the Commission for consideration are the Petitions for approval of the Long-Term Infrastructure Improvement Plan (LTIIP) and the Distribution System Improvement Charge (DSIC) of UGI Penn Natural Gas, Inc. (UGI-PNG or Company).

**HISTORY OF THE PROCEEDING**

UGI-PNG – a wholly owned subsidiary of UGI Utilities, Inc. (UGI Utilities), which, in turn, is a wholly owned subsidiary of UGI Corporation – is a corporation organized and existing under the laws of the Commonwealth of Pennsylvania. UGI-PNG is in the business of selling and distributing natural gas to retail customers within the Commonwealth, and is therefore a “public utility” within the meaning of Section 102 of the Public Utility Code, 66 Pa. C.S. §§ 102, subject to the regulatory jurisdiction of the Commission. UGI-PNG, as an NGDC, provides natural gas service to approximately 160,000 residential, commercial, and industrial customers in all or portions of 13 Northeastern Pennsylvania Counties. UGI-PNG provides service through approximately 2,600 miles of mains that it owns, operates and maintains.

On February 19, 2013, the Commission entered an Order (February 19 Order) approving and modifying a Joint Settlement Petition (Settlement) that was entered into by the Commission’s Bureau of Investigation and Enforcement and UGI-PNG, UGI Utilities, Inc. – Gas Division, and UGI Central Penn Gas, Inc. (collectively the “UGI Companies”) at Docket No. C-2012-2308997. The Settlement resolved all issues raised in the Formal Complaint, which concerned a fatal natural gas explosion that occurred on February 9, 2011, at 542 and 544 North 13th Street, Allentown, Pennsylvania.

The February 19 Order requires the UGI Companies to retire or replace all in-service cast iron mains in its three regulated service territories over the period of 14 years beginning in March 2013, while permitting them to continue the pace of their on-going 30-year bare steel main replacement program. The February 19 Order prohibits the UGI Companies from seeking recovery of any costs that would otherwise be eligible for recovery through a DSIC until April 2015, hence UGI-PNG filing for an initial DSIC rate of 0%.

UGI-PNG’s LTIIP was filed on December 12, 2013, with copies being served upon the statutory advocates in accordance with *Implementation of Act 11 of 2012*, Docket No. M‑2012‑2293611 (August 2, 2012) (Final Implementation Order). The DSIC was also filed on December 12, 2013. UGI-PNG’s DSIC Petition includes a ProForma Tariff Addendum to PNG Gas – Pa. P.U.C. No. 8 to introduce the DSIC Rider into the Company’s tariff with an effective date of April 1, 2014. The filing was made pursuant to 66 Pa. C.S. § 1353 and the Final Implementation Order.

The Office of Consumer Advocate (OCA) filed comments pertaining to the LTIIP on January 2, 2014, but did not initially request hearings. On January 2, 2014 OCA filed a Notice of Intervention and Public Statement, a Formal Complaint (Docket No. C-2014-2399316), and an Answer to UGI-PNG’s DSIC Petition. In its Answer to UGI-PNG’s DSIC petition, OCA states that the Commission should deny UGI-PNG’s Petition as filed, suspend the proposed Tariff Addendum to PNG Gas – Pa. P.U.C. No. 8, and refer the matter to the Commission’s Office of Administrative Law Judge (OALJ) for a full hearing and investigation pursuant to OCA’s complaint.

On January 2, 2014 the Office of Small Business Advocate (OSBA) filed a Notice of Intervention, Public Statement, and Complaint to UGI-PNG’s DSIC Petition. OSBA requested hearings and such relief as may be necessary or appropriate. In its Complaint, OSBA did not allege that any particular provision or relief requested by UGI-PNG should be denied.

UGI-PNG filed Answers on January 27, 2014, in response to both the OCA’s and the OSBA’s formal complaints on UGI-PNG’s DSIC petition, in which they requested that the complaints of OCA and OSBA be dismissed in their entirety.

No objections or comments were received from federal, state or local governmental agencies.

**BACKGROUND**

On February 14, 2012,Governor Corbett signed into lawAct 11 of 2012, (Act 11),[[1]](#footnote-1) which amends Chapters 3, 13 and 33 of Title 66. Act 11, *inter alia*, provides jurisdictional water and wastewater utilities, electric distribution companies (EDCs), and natural gas distribution companies (NGDCs) or a city natural gas distribution operation with the ability to implement a DSIC to recover reasonable and prudent costs incurred to repair, improve or replace certain eligible distribution property that is part of the utility’s distribution system. The eligible property for the utilities is defined in 66 Pa. C.S. §1351. Act 11 states that as a precondition to the implementation of a DSIC, a utility must file a LTIIP with the Commission that is consistent with 66 Pa. C.S. §1352.

On April 5, 2012, the Commission held a working group meeting for discussion and feedback from stakeholders regarding its implementation of Act 11. On May 10, 2012, the Commission issued a Tentative Implementation Order addressing and incorporating input from the stakeholder meeting. Stakeholders filed comments to the Tentative Implementation Order on June 6, 2012. On August 2, 2012, the Commission issued the Final Implementation Order, at Docket No. M‑2012‑2293611, establishing procedures and guidelines necessary to implement Act 11.

The Final Implementation Order adopts the requirements established in 66 Pa. C.S. § 1352, provides additional standards that each LTIIP must meet, and gives guidance to utilities for meeting the Commission’s standards. The Final Implementation Order of Act 11 requires the inclusion of seven elements in the LTIIP.

**UGI-PNG’s LTIIP PETITION**

**UGI-PNG’s Petition**

Before the Commission for consideration is the Petition for approval of UGI-PNG’s LTIIP, filed on December 12, 2013. Act 11 states that as a precondition to the implementation of a DSIC, a utility must file a LTIIP with the Commission that is consistent with 66 Pa. C.S. §1352.

UGI-PNG’s LTIIP is a five year plan. UGI-PNG plans to replace its cast iron mains within 14 years and its bare steel mains within thirty years. UGI-PNG’s projected annual investments in distribution infrastructure replacement will be approximately $22.9 million beginning in fiscal year 2014. This includes cast iron and bare steel main replacement, as well as service replacements.

UGI-PNG states that it performs an annual review to identify the highest risk pipe segments and prioritizes those replacements each year. The Company utilizes commercial risk evaluation software along with a team of Subject Matter Experts to evaluate, prioritize, and bundle replacement projects. UGI-PNG avers that it targets the highest risk mains first while also balancing the need to maximize the efficient deployment of capital and resources. UGI-PNG states that its approach is consistent with the UGI-PNG Transmission Integrity Management Program (TIMP) and Distribution Integrity Management Program (DIMP), and provides that the purpose of its TIMP and DIMP is to enhance public safety by identifying risks, assessing and prioritizing the risks, and implement additional and accelerated actions or preventative and mitigating measures to reduce risks.

UGI-PNG owns and operates roughly 66 miles of transmission pipeline, 2,600 miles of distribution pipeline, and 168,000 service lines. Within this system, UGI-PNG currently operates approximately 50 miles of cast iron pipeline, which is considered the highest risk category of pipeline within the Company’s system due to its relative age and vulnerability to breakage from ground movements. Consequently, under its LTIIP, UGI-PNG plans to replace all 50 miles of cast iron pipeline within its system over a 13-year period ending February of 2027. As a category, unprotected bare steel is UGI-PNG’s next highest risk pipe due to its propensity to be subject to corrosion, and as such, UGI-PNG plans to replace all 340 miles of its bare steel and wrought iron pipelines by September of 2041

UGI-PNG has also filed a petition at P-2013-2397056 for approval of a DSIC. DSIC is a ratemaking mechanism that allows for the recovery of prudently incurred costs related to the repair, improvement and replacement of utility infrastructure through a surcharge on a timelier basis, subject to reconciliation, audit and other consumer protections.

The LTIIP will allow UGI-PNG to replace an average of almost 17 miles of pipeline per year during the five-year period of the LTIIP. Further, UGI-PNG plans to spend nearly $23 million per year on pipeline replacements, service line improvements, and safety device installations, over the five-year period of the plan.

On March 14, 2013, the Commission issued a proposed rulemaking on the LTIIP at L‑2012‑2317274. The proposed rulemaking acknowledged the Commission’s decision against establishing a separate Pipeline Replacement and Performance Plan filing process at Docket No. M‑2011‑2271982, because it would be duplicative of the Act 11 DSIC regulatory process, specifically, the filing of LTIIPs. The Commission, nevertheless, determined that it would rather order additional actions from NGDCs if necessary, in order to safeguard the public. The Commission also acknowledged that the implementation of a DSIC mechanism may lead to numerous construction projects by the utilities. The Commission is aware that these construction projects could lead to significant disruptions as utilities perform work in the right of ways of the roadways and streets across the Commonwealth in order to repair or replace their infrastructure. Therefore, the Commission has directed, by way of the proposed rulemaking, that a utility, as part of its LTIIP, should provide a description of its outreach and coordination activities with other utilities, Pennsylvania Department of Transportation (PennDOT), and local governments regarding their planned maintenance/construction projects and roadways that may be impacted by the plan.

As a result, the proposed rulemaking added an additional element, thereby increasing the original seven elements in the LTIIP to eight as shown below:

1. Types and age of eligible property;
2. Schedule for its planned repair and replacement;
3. Location of the eligible property;
4. Reasonable estimates of the quantity of property to be improved;
5. Projected annual expenditures and measures to ensure that the plan is cost effective;
6. Manner in which replacement of aging infrastructure will be accelerated and how repair, improvement or replacement will maintain safe and reliable service;
7. A workforce management and training program; and
8. A description of a utility’s outreach and coordination activities with other utilities, PennDOT and local governments on planned maintenance/construction projects.

UGI-PNG’s LTIIP addressed these eight elements as required in the Final Implementation Order of Act 11 and the proposed rulemaking of March 14, 2013, as outlined below.

1. **TYPES AND AGE OF ELIGIBLE PROPERTY**

**UGI-PNG’s Petition**

UGI-PNG proposes the following types of property as DSIC-eligible distribution infrastructure that will be replaced as part of its plan:

* Gas distribution & transmission mains, valves, fittings, couplings, and appurtenances
* Gas service lines including tees, excess flow valves, curb valves, first state regulators, tubing/piping, and risers
* Gas meter sets including regulators, meter bars, meter set piping, meters, and telemetry
* District regulator stations and city gate stations including telemetry
* Mandated facility relocations, as related to highway projects (unreimbursed costs)
* Related capitalized costs – equipment, tools, corrosion control equipment, vehicles, and supporting information technology

Distribution Mains: As of December 31, 2012, UGI-PNG had a total of 2,575 miles of distribution mains on its system. The age and type of distribution mains present in UGI-PNG’s system is detailed in Table1 below. UGI-PNG states that cast iron was used in the oldest portions of its distribution system. Cast iron is vulnerable to breakage from ground movement. Use of cast iron was replaced with wrought iron and bare steel. A significant portion of UGI-PNG’s system is composed of bare steel, which is subject to corrosion. UGI-PNG’s system also contains plastic piping which has shown a vulnerability to stress propagation cracking. Cast iron and bare steel make up approximately 15.1% of the UGI-PNG distribution system while the remainder (84.9%) is comprised of contemporary materials which include plastic and coated steel. UGI-PNG’s plan includes the replacement and removal of all cast iron and bare steel/wrought iron pipelines by February 2027 and September 2041 respectively. UGI-PNG contends that in addition to replacement of first generation mains made out of cast iron, wrought iron and bare steel, they will be replacing associated distribution equipment and installing additional safety and monitoring equipment that is compatible with the upgrade design.

**Table 1: DSIC-Eligible Distribution Mains, Transmission Mains and Service Lines as of 12/31/2012.**

|  |  |  |  |
| --- | --- | --- | --- |
| **Type of Material** | **Distribution Mains** | **Transmission Mains** | **Service Lines** |
| **Miles** | **% of Total** | **Miles** | **% of Total** | **Number** | **% of Total** |
| **Unprotected bare steel** | 265.1 | 10.3 | 0 | 0 | 1,253 | 0.7 |
| **Unprotected coated steel**  | 19.5 | 0.8 | 1.4 | 2.1 | 20,377 | 12.1 |
| **Protected bare steel**  | 14.0 | 0.5 | 0 | 0 | 36 | 0 |
| **Protected coated steel**  | 792.71 | 30.80 | 64.89 | 97.9 | 9,589 | 5.7 |
| **Ductile iron**  | 0 | 0 | 0 | 0 | 0 | 0 |
| **Copper** | 0 | 0 | 0 | 0 | 0 | 0 |
| **Cast / wrought iron**  | 111.23 | 4.3 | 0 | 0 | 0 | 0 |
| **Plastic**  | 1372.73 | 53.3 | 0 | 0 | 136,630 | 81.4 |
| **Other**  | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total**  | **2,575.27** | **100.0** | **66.29** | **100.0** | **167,885** | **100.0** |

Gas Service Lines: UGI-PNG states that typically gas service lines are periodically replaced on the basis of condition or planned obsolescence in conjunction with the replacement of the main to which they are connected. At the time of service line replacement, inside meters will be replaced with outside meters wherever practical to better facilitate company access.

Excess Flow Valves: Excess flow valves are safety devices installed on gas service lines which interrupt the flow of gas in the event of a fully severed line. As service lines are replaced, excess flow valves are installed.

City Gate and District Regulator Stations: City Gate and District Regulator Stations are facilities which reduce system pressures as gas is distributed throughout the piping network. City Gate Stations are generally located at the point of custody transfer between the interstate pipelines and distribution systems, whereas District Regulator

Stations are located within distribution systems. UGI-PNG states that regulator stations must be periodically updated or replaced as components such as piping and mechanical equipment age and wear or become obsolete. UGI-PNG has 11 City Gate Stations and 328 District Regulator Stations.

Vintage Plastic Pipe, Plastic Pipe Components, and Mechanical Fittings: UGI-PNG has identified two types of plastic fittings with a higher than average potential for failure --

a tee which joins the service line to the main, and the service line curb valve. There are approximately 3,100 compression connection valves and 1,000 mechanical tees that will be reviewed and addressed as may be appropriate by UGI-PNG. Early vintage plastic pipes have been found to be subject to higher potential for brittle cracking type failures and are replaced on a risk prioritized basis.

Transmission Mains and Infrastructure: As outlined in Table 2 below, UGI-PNG maintains approximately 66.3 miles of natural gas transmission pipelines which provide large volumes of gas at high pressures. Approximately 65 miles, or 98% of total transmission mains, are protected coated steel. Approximately 58% of the UGI-PNG transmission system is pre-1960s vintage, or more than 50 years old.

**Table 2: Age Profile of Eligible Distribution and Transmission Mains**

 **as of 12/31/2012.**

|  |  |
| --- | --- |
| **Distribution Mains** | **Transmission Mains** |
| **Decade of Installation** | **Mileage** | **Percent of Total** | **Decade of Installation** | **Mileage** | **Percent of Total** |
| Unknown | 0 | 0 | Unknown | 0 | 0 |
| Pre-1940 | 6.0 | 0.2 | Pre-1940 | 0 | 0 |
| 1940’s | 110.97 | 4.3 | 1940’s | 0 | 0 |
| 1950’s | 668.67 | 26.0 | 1950’s | 38.3 | 57.8 |
| 1960’s | 332.26 | 12.9 | 1960’s | 0 | 0 |
| 1970’s | 324.94 | 12.6 | 1970’s | 0 | 0 |
| 1980’s | 566.92 | 22.0 | 1980’s | 0 | 0 |
| 1990’s | 357.55 | 13.9 | 1990’s | 19.94 | 30.1 |
| 2000’s | 38.6 | 1.5 | 2000’s | 8.05 | 12.1 |
| 2010’s | 169.36 | 6.6 | 2010’s | 0 | 0 |
| **Total**  | **2575.27** | **100.0** | **Total**  | **66.29** | **100.0** |

System Reliability Improvements: UGI-PNG states that System Reliability Improvements are those investments required to maintain ongoing system reliability. Typical projects include investments in distribution or transmission infrastructure needed to reinforce system pressures to ensure firm peak-day deliverability.

Meters: UGI-PNG replaces meters as may be necessary to maintain compliance with gas measurement accuracy standards. UGI-PNG uses a statistical sampling program to evaluate meter accuracy. If a grouping of meters fails to meet accuracy requirements, the meters are repaired or replaced.

Mandated Facility Relocations: UGI-PNG states that periodically it is required to relocate gas facilities to accommodate highway improvement projects, and the unreimbursed portion of these costs is DSIC-eligible.

Related Capitalized Costs: UGI-PNG states that the replacement of DSIC eligible property may result in additional related costs incurred that are essential and necessary in order to efficiently manage specific accelerated capital improvement projects. Examples include, but are not limited to, tools, equipment, fleet, corrosion control, and information technology investments.

**Comments**

 OCA recommends that the Company’s proposal to recover costs incurred for tools, equipment, fleet, corrosion control, and information technology investments through the DSIC be reviewed to determine whether it is consistent with statutory requirements. OCA states that the Company should address project costs associated with reliability improvements through its normal capital planning process and recover those costs through its base rates.

**Resolution**

 In response to OCA’s concerns regarding capitalized costs for equipment and other expenses and reliability improvements, the Commission will address each of these concerns.

Related Capitalized Costs: While we acknowledge OCA’s concerns regarding capitalized costs for vehicles, tools, equipment and information technology, the Commission believes that these upgrades to existing infrastructure will improve the reliability of UGI-PNG’s service to customers. If the capital project requiring these costs is a DSIC-eligible project, then the costs of tools, equipment, fleet, and information technology can be capitalized as overhead as part of the DSIC-eligible project. We note the use of the term “other related capitalized costs” in the definition of eligible property in Act 11. See 66 Pa. C.S. § 1351. More importantly, we believe that the inclusion of these DSIC-eligible properties will encourage the acceleration of infrastructure upgrades by UGI-PNG. Therefore, we approve these DSIC-eligible properties in UGI-PNG’s LTIIP.

Reliability Improvements: UGI-PNG avers that reliability projects proposed by UGI-PNG are included in the LTIIP for the purposes of elevating system pressures or increasing diversity of system support for the benefit of improving service reliability to existing customers.

 As we stated in our *Final Implementation Order,* “…the DSIC mechanism was granted to fixed utilities so that they could repair and replace their existing infrastructure...necessary upgrades to existing infrastructure serving existing customers…will be considered a DSIC-eligible project. *See Final Implementation Order* at 23-24. This is in line with the reasoning that this will potentially reduce outages on such systems and increase reliability of their infrastructure.

 We believe that upgrading existing facilities, such as UGI-PNG’s example of investments in distribution or transmission infrastructure needed to reinforce system pressures to ensure firm peak-day deliverability, will decrease the likelihood of failure, thereby increasing reliability of their infrastructure. Accordingly, we believe that any reliability improvements performed by UGI-PNG as part of a *planned* repair and replacement project should be rightfully included in its LTIIP.

Upon review of UGI-PNG’s LTIIP and all supplemental information and explanations filed, the Commission finds that the requirements of element one of the Final Implementation Order of Act 11, types and age of eligible property, have been fulfilled.

1. **SCHEDULE FOR PLANNED REPAIR AND REPLACEMENT OF ELIGIBLE PROPERTY**

**UGI-PNG’s Petition**

The Schedule for Planned Replacements may be found in Table 4, located in the combined Section 4/5 below. UGI-PNG states that LTIIP projects performed by UGI-PNG will be adjusted or changed as required to align with changing circumstances such as transportation construction projects, or changes in state or federal pipeline safety codes. UGI-PNG avers that projects will be regularly reviewed and updated to ensure all projects are cost effective and provide the expected system integrity and reliability benefits.

**Comments**

No comments were received regarding the schedule for planned repair and replacement of eligible property.

**Resolution**

Upon review of UGI-PNG’s LTIIP and all supplemental information and explanations filed, the Commission finds that the requirements of element two of the Final Implementation Order, schedule for planned repair and replacement of eligible property, have been fulfilled.

1. **LOCATION OF ELIGIBLE PROPERTY**

**UGI-PNG’s Petition**

Eligible property (including property that is the focus of this LTIIP) is located throughout UGI-PNG’s territory. Mains, by type, county, and quantity are displayed in Table 3 below.

**Table 3 Location of Mains by County, Type and Quantity (in Footage)**

| **County** | **Bare Steel** | **Cast Iron** | **Coated Steel** | **Plastic** | **Wrought Iron** | **Unknown** | **Total (Feet)** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Clinton |  |  | 28,146 | 429 | 159,300 |  | **187,875** |
| Columbia | 154,995 | 9,867 | 243,308 | 357,472 | 9,172 |  | **774,814** |
| Lackawanna | 305,084 | 108,486 | 1,310,664 | 2,812,848 | 517 | 44 | **4,537,643** |
| Luzerne | 183,700 | 19,801 | 1,705,642 | 2,210,597 | 6,347 |  | **4,126,087** |
| Lycoming | 83,777 | 103,734 | 538,706 | 884,970 | 16,057 |  | **1,627,244** |
| Montour | 61,640 | 100 | 102,473 | 144,739 |  |  | **308,952** |
| Northumberland | 54,969 | 11,785 | 523,829 | 464,351 | 6,197 |  | **1,061,131** |
| Pike | 48 |  | 47,792 | 64,588 |  |  | **112,428** |
| Snyder | 19,061 |  | 94,231 | 166,655 | 18,554 |  | **298,501** |
| Susquehanna | 5,320 |  | 79,892 | 23,395 |  |  | **108,607** |
| Union | 3 |  | 88,307 | 57,162 | 100,726 |  | **246,198** |
| Wayne | 38,097 | 2,804 | 122,144 | 143,702 |  |  | **306,747** |
| Wyoming | 9,533 |  | 41,075 | 34,792 |  |  | **85,400** |
| **Total (Feet)** | **916,227** | **256,577** | **4,926,209** | **7,365,700** | **316,870** |  **44** | **13,781,627** |
| **Total (Miles)** | **174** | **49** | **933** | **1,395** | **60** | **0** | **2,610** |

**Comments**

No comments were received regarding the location of eligible property.

**Resolution**

Upon review of the LTIIP, the Commission finds that element three of the Final Implementation Order, the location of eligible property requirement, has been fulfilled.

1. **REASONABLE ESTIMATES OF THE QUANTITY OF PROPERTY TO BE IMPROVED, and**
2. **PROJECTED ANNUAL EXPENDITURES AND MEASURES TO ENSURE THAT THE PLAN IS COST EFFECTIVE**

**UGI-PNG’s Petition**

 UGI-PNG’s 2014 replacement plan includes replacement of approximately 12 miles of cast iron and bare steel mains. Additionally, UGI-PNG plans on replacing approximately 2 miles of ineffectively protected coated steel pipe as part of an ongoing series of investments to address prioritized main segments. UGI-PNG avers that its annual asset optimization plan will provide updated yearly replacement plans, based on its latest risk assessment process. Total quantity of property to be improved and annual expenditures for the LTIIP period are provided in Table 4 below.

**Table 4 – Annual Schedule, Quantity of Property to Be Removed and Annual Expenditures FY 2014-2018**

|  |
| --- |
| Long Term Infrastructure Improvement Program Annual Schedule, Quantities, and Expenditures  FY 2014- 2018 |
| **Quantities** **FY 2014 FY 2015 FY 2016 FY 2017 FY 2018 Totals** **Historical 2009-11 Program**Base Mains (miles) 12.2 12.2 12.2 12.2 12.2 61.0 Base Services (#) 1,660 1,660 1,660 1,660 1,660 8,300**Settlement Agreement**Additional Mains (miles) 2.0 5.0 5.0 5.0 5.0 22.0Additional Services (#) (210) 140 140 140 140 350**Current Program Totals** \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Mains (miles) **14.20 17.20 17.20 17.20 17.20 83.0** Services (#) **1,450 1,800 1,800 1,800 1,800 8,650****Expenditures** ($ million)  **FY 2014 FY 2015 FY 2016 FY 2017 FY 2018 Totals** **Historical 2009-11 Program**Base Mains $6.8 $6.8 $6.8 $6.8 $6.8 $34.0 Base Services $3.3 $3.3 $3.3 $3.3 $3.3 $16.5Other $3.7 $3.7 $3.7 $3.7 $3.7 $18.5**Total** **$13.8 $13.8 $13.8 $13.8** **$13.8** **$69.0****Settlement Agreement**Additional Mains ($0.9) $4.5 $4.5 $4.5 $4.5 $17.1Additional Services $0.7 $1.7 $1.7 $1.7 $1.7 $7.5Other $9.3 $2.9 $2.9 $2.9 $2.9 $20.9**Total** **$9.1 $9.1 $9.1 $9.1** **$9.1** **$45.5****Current Program Totals** **$22.90 $22.90 $22.90 $22.90 $22.90 $114.50** |

UGI-PNG states it will use numerous oversight and control processes to ensure cost effectiveness including, but not limited to, competitive bidding of multi-year contracts, aggregation of UGI Companies’ projects for bid purposes, recruitment of additional qualified contractors, evaluation and implementation of new or improved technologies, and periodic HR staffing allocation reviews.

 UGI-PNG asserts it will monitor safety and reliability indicators to evaluate corrosion and leak resolution performance, track emergency response, pursue damage prevention, and reinforce employee safety and safety improvement. Further, UGI-PNG states that it will increase construction efficiency by grouping planned replacement projects with others in a geographic region to reduce costs associated with mobilization and reduce the impact to the affected community.

**Comments**

OCA states that certain additional information may be needed to properly evaluate whether UGI-PNG’s LTIIP meets all the requirements of Act 11 and the Final Implementation Order. OCA submits that UGI-PNG should provide additional information on the results of risk assessments for mains and services.

**Resolution**

In response to Commission Staff data requests for results of risk assessments for mains and services, UGI-PNG states that it utilizes a risk based prioritization as part of its DIMP. UGI-PNG provides that within its DIMP program cast iron and bare steel have been identified as the primary distribution system threats, and consequently the LTIIP reflects the accelerated replacement of these assets. UGI-PNG avers that as part of the DIMP, it uses commercial software to assess distribution integrity risks and to prioritize infrastructure projects.

Upon review of UGI-PNG’s LTIIP and all supplemental information filed, the Commission finds that the requirements of elements four and five of the Final Implementation Order, reasonable estimates of the quantity of property to be improved and the projected annual expenditures and measures to ensure that the plan is cost effective, have been fulfilled.

1. **ACCELERATED REPLACEMENT AND MAINTAINING SAFE AND RELIABLE SERVICE**

**UGI-PNG’s Petition**

UGI-PNG plans to retire or replace all in-service cast iron mains over the period of 14 years and all bare steel mains over the period of 30 years beginning in March 2013.

UGI-PNG avers that the LTIIP will provide customers with significant improvements in safety and reliability such as reduced leakage rates, fewer main breaks, and fewer unplanned customer interruptions. UGI-PNG also expects the amount of lost and unaccounted for gas due to system leakage and measure inaccuracy will be reduced as leaks are eliminated and meters replaced. UGI-PNG indicates peak day reliability will improve as pressure improvement projects elevate system low points under peak day design conditions.

**Comments**

No comments were received regarding accelerated replacement and maintaining safe and reliable service.

**Resolution**

Upon review of UGI-PNG’s LTIIP and all supplemental information and explanations filed, the Commission finds that the requirements of element six of the Final Implementation Order, manner in which replacement of aging infrastructure will be accelerated and how repair, improvement or replacement will maintain safe and reliable service, have been fulfilled.

1. **WORKFORCE MANAGEMENT AND TRAINING PROGRAM**

**UGI-PNG’s Petition**

The Final Implementation Order requires a utility to include within its LTIIP a workforce management and training plan designed to ensure that the utility will have access to a qualified workforce to perform work in a cost-effective, safe and reliable manner.

UGI-PNG states that the UGI Companies conduct an Operator Qualification (OQ) Program to ensure that personnel performing critical tasks on all pipeline facilities have the necessary knowledge, skills and abilities. The OQ program includes more than 120 identified tasks, with many sub-parts within tasks, requiring extensive training, testing and qualification verification. Field technicians complete comprehensive safety courses including jobsite safety, driver safety, fire extinguisher use, pipefitting, hazardous materials recognition, abnormal operating condition recognition, emergency response, basic gas piping construction and maintenance, and leak detection.

UGI-PNG maintains that the UGI Companies utilize an internal compliance department to perform regular quality and safety inspections of construction activities, and verification of qualifications. Compliance inspectors perform unannounced job site inspections of both Company and contractor crews. Contractors working on the UGI-PNG system must pass a rigorous review and meet all Department of Transportation regulatory requirements.

The UGI Companies will hire additional personnel and contractors in order to complete the LTIIP projects. In addition, the UGI Companies have allied with university, post-secondary technical schools and veterans’ programs to identify additional personnel resources.

**Comments**

No comments were received regarding the workforce management and training program.

**Resolution**

As part of the planning for DSIC projects, a utility may experience the need for increased workforce, internal and contractor. Utilities should be able to identify the projected number of jobs (or full-time equivalents) that are expected to be created through specific replacement projects. When a utility submits its information on the eligible projects, it should supply the number of anticipated new jobs to be created by those projects. When the DSIC funds are audited for annual reconciliation, the utility should be able to provide actual numbers for the jobs created due to specific replacement projects.

Upon review of UGI-PNG’s LTIIP, the Commission finds that the requirements of element seven of the Final Implementation Order, a workforce management and training program, have been fulfilled.

1. **DESCRIPTION OF OUTREACH AND COORDINATION ACTIVITIES WITH OTHER UTILITIES, PENNDOT AND LOCAL GOVERNMENTS ON PLANNED PROJECTS**

**UGI-PNG’s Petition**

UGI-PNG asserts that it has a long-standing and active outreach program with local municipalities in its service territories aimed at coordinating construction projects.

**Comments**

OCA recommends that UGI-PNG submit a report on its plans to coordinate with other utilities, agencies and local municipalities that may be planning sewer, water, paving and other utility projects.

**Resolution**

 In response to Commission Staff data requests TUS-I-2 and TUS-III-1, UGI-PNG provides that it performs significant efforts to coordinate operations and maintenance activities with other infrastructure owners including highway agencies, water/sewer authorities, and municipalities. As a registered infrastructure owner in the Pennsylvania One-Call System, UGI-PNG asserts it is notified of planned work which may impact utility facilities. As a part of the design and planning process, engineering consulting firms and infrastructure owners utilize Design Notices to provide UGI-PNG with advance pre-construction notification of projects which may impact utility infrastructure. In response to Design Notices, UGI-PNG conveys that it is alerted to project plans and provides detailed information to support infrastructure coordination efforts. UGI-PNG sets forth that Design Notices have proven useful in identifying and resolving potential utility conflicts in advance of field construction. Further, UGI-PNG asserts that Design Notices have alerted UGI-PNG to projects where accelerated replacement of gas infrastructure afforded the ability to minimize future restoration costs.

 UGI-PNG indicates that it also coordinates operation and maintenance activity with water and sewer entities. UGI-PNG states that water and sewer issues may create the potential for subsidence or creation of sink-holes, which can remove the support for adjacent utilities. Whether identified through routine system surveillance, or in response to reports of subsidence received from municipal authorities or water/sewer utilities, UGI-PNG contends that it takes additional steps to ensure infrastructure integrity by performing additional leak surveys of affected facilities, providing inspection and monitoring during sink-hole repairs, temporarily de-pressurizing lines subjected to instability, and relocating lines away from areas of subsidence. In addition to these efforts, UGI-PNG maintains that it records the presence of sink-holes or subsidence in a Geographic Information System to facilitate data integration for risk analysis.

 UGI-PNG asserts that on an annual basis it performs outreach to roadway authorities to identify planned roadway resurfacing and reconstruction projects. UGI-PNG issues template letters to highway stakeholders to gather information to better coordinate and align utility infrastructure replacement projects with transportation infrastructure plans. UGI-PNG offers that, in addition to the written outreach, periodic meetings are held with governmental officials to identify changes in project plans and to coordinate the efforts on major projects. UGI-PNG engineering staff holds follow-up meetings or discussions with larger municipalities including Wilkes-Barre, Scranton, and Williamsport to determine changes in project plans, if any. Additionally, UGI-PNG governmental affairs staff periodically meets with local mayors to review replacement program progress and to identify any local issues of concern. Secondly, UGI-PNG maintains close contact with PennDOT Local Utility Coordinators throughout the year to coordinate utility relocation projects and to identify changes in PennDOT projects priorities. Third, planning in coordination with local water utilities is utilized to stage projects for the purpose of sharing pavement restoration cost and minimizing disturbances to neighborhoods. Finally, UGI-PNG utilizes press releases on major projects to increase community awareness in advance of replacement activities.

In addition to the aforementioned efforts, UGI-PNG maintains an infrastructure project section on the UGI.com website. The website provides utility coordination information including project lists by municipality, infrastructure press releases, and answers to frequently asked questions.

Upon review of UGI-PNG’s LTIIP and all supplemental information and explanations filed, the Commission finds that the requirements of element eight of the Final Implementation Order, a description of a utility’s outreach and coordination activities with other utilities, PennDOT and local governments on planned maintenance/construction projects, have been fulfilled.

**LTIIP SUMMARY**

The Commission has reviewed each of the eight required elements of UGI-PNG’s Petition for Approval of its LTIIP individually and has taken into account the comments received on this petition. While the Commission’s Final Implementation Order stated, at page 18, that the LTIIP “need only address the specific property eligible for DSIC recovery,” the inclusion of arguably non-DSIC-eligible property does not void the LTIIP application, nor is the inclusion of such property in the LTIIP dispositive of whether the cost of that project will be afforded DSIC recovery.  The issues of eligibility and cost recovery, for all property claimed as DSIC-eligible, are to be addressed and resolved in the subsequent DSIC petition and calculation.  Accordingly, UGI-PNG’s LTIIP is approved.

**UGI-PNG’S DISTRIBUTION SYSTEM IMPROVEMENT CHARGE PETITON**

Section 1353 requires utilities to file a petition seeking approval of a DSIC that includes the following:

1. An initial tariff that complies with the Model Tariff adopted by the Commission, which includes:
	1. A description of eligible property;
	2. The effective date of the DSIC;
	3. Computation of the DSIC;
	4. The method for quarterly updates of the DSIC; and
	5. A description of consumer protections.
2. Testimony, affidavits, exhibits, and other supporting evidence demonstrating that the DSIC is in the public interest;
3. A Long Term Infrastructure Improvement Plan (LTIIP) as described in Section 1352, 66 Pa. C.S. § 1352;
4. Certification that a base rate case has been filed within five years prior to the filing of the DSIC petition; and
5. Other information required by the Commission.

UGI-PNG’s petition addresses each of the elements listed in the statute, as detailed below.

 **(1) Tariff Filing**

Section 1353 requires utilities to file an initial tariff that complies with the Model Tariff adopted by the Commission. UGI-PNG’s proposed ProForma Tariff Addendum to PNG Gas – Pa. P.U.C. No. 8 (Proposed Tariff) closely reflects the language of the Model Tariff. However, UGI-PNG shall make the tariff sufficiency modifications as spelled-out in Appendix A at the conclusion of this Order. We shall review each item in turn.

 **(a) Eligible Property**

**UGI-PNG’s Petition**

UGI-PNG designates the same property as DSIC-eligible as it included in its LTIIP, including the following: piping; couplings; gas service lines; valves; fittings; risers; meter bars; meters; unreimbursed costs related to highway relocation projects; gathering lines; storage lines; transmission lines; and other related capitalized costs. Details of UGI-PNG’s DSIC-eligible property are discussed thoroughly in the LTIIP section of this Order. Eligible property for NGDCs is defined in Section 1352, 66 Pa. C.S. § 1351(2).

UGI-PNG has proposed including “other related capitalized costs” as part of its LTIIP that would be eligible for DSIC recovery. Those other categories include: regulator stations and equipment; electronic systems and software; and vehicles, tools and power equipment – all of which are discussed in their entirety in the LTIIP section of this Order.

**Comments**

As to the category of “other related capitalized costs”, OCA questions whether these assets actually serve to accelerate the replacement of aging infrastructure, hence making them ineligible for recovery through the DSIC mechanism. OCA asserts that these areas of DSIC-eligible property should be reviewed by the Commission to determine whether their costs should be properly recovered through base rates as part of the Company’s normal capital planning process, as opposed to the DSIC surcharge which is intended to accelerate the replacement of aging infrastructure.

**Resolution**

When it comes to the elements of “other related capitalized costs”, UGI-PNG claims that such items are necessary for the locating, repairing, and replacing of aging infrastructure on an accelerated basis, and as such, qualify as reasonable and prudent costs to be recovered through the DSIC. The Company further states that it cannot undertake its substantial repair and replacement program without appropriate equipment, and that only those capital expenditures used exclusively for work that qualifies for recovery under the DSIC will be included. UGI-PNG will not seek to include equipment that is used in the normal course of business and is unrelated to DSIC-eligible projects.

The Commission has ruled in the LTIIP section of this Order as to whether these items will be permitted for inclusion in UGI-PNG’s LTIIP as eligible-property. We will align our stance on whether these items should be DSIC-recoverable with the determinations made in that LTIIP discussion. However, noting that OCA has challenged the recovery of these costs in the DSIC, the Commission will refer the issue of whether the costs associated with “other related capitalized costs” – including, but not limited to, regulator stations and equipment, electronic systems and software, and vehicles, tools and power equipment – are recoverable through the DSIC mechanism to the OALJ for hearing and recommended decision.

**(b) Effective Date**

**UGI-PNG’s Petition**

UGI-PNG’s Proposed Tariff has an effective date of April 1, 2014. As outlined by Company witness William J. McAllister, and pursuant to the terms of the UGI Settlement at Docket No. C‑2012‑2308997, UGI-PNG may not have a non-zero DSIC rate until April 1, 2015.

**Comments**

OCA submits that UGI-PNG should not be permitted to implement its DSIC rate until the issues raised about the recovery of certain costs through the DSIC have been resolved, and it has been determined that the DSIC rate has been calculated in accordance with Act 11 and the Commission’s Final Implementation Order.

**Resolution**

Given that OCA has raised issues and requested hearings regarding certain elements of UGI-PNG’s DSIC petition, we shall refer those issues to OALJ for hearing and recommended decision. However, consideration of those issues need not delay implementation of the DSIC mechanism itself. We shall permit UGI-PNG to implement a DSIC mechanism, pursuant to a tariff filed on a 10-day notice and in compliance with the directives in this Order, but note that the rates charged pursuant to the DSIC surcharge shall be subject to recoupment and refund after final resolution of the issues brought before the OALJ. Therefore, based on requirements for DSIC quarterly updates, as more fully described below, the Commission directs UGI-PNG to file a tariff no later than September 20, 2014, if UGI-PNG wishes to have an effective date of October 1, 2014.[[2]](#footnote-2) UGI-PNG’s tariff must be modified in a tariff filing as directed by the Commission in this Order.

**(c) Computation of the DSIC**

**UGI-PNG’s Petition**

With the Proposed Tariff, UGI-PNG proposes a Pro-Forma DSIC rate of .59%, which the Company avers was calculated consistent with the Model Tariff in the Final Implementation Order. The formula for calculation of the DSIC is as follows:

DSIC = (DSI \* PTRR) + Dep + e

 PQR

Where:

DSI = Original cost of eligible distribution system improvement projects net of accrued depreciation.

PTRR = Pre-tax return rate applicable to DSIC-eligible property.

Dep = Depreciation expense related to DSIC-eligible property.

e = Amount calculated under the annual reconciliation feature or Commission audit.

PQR = Projected quarterly revenues for distribution service (including all applicable clauses and riders) from existing customers plus revenue from any customers which will be acquired by the beginning of the applicable service period.

UGI-PNG’s calculation is:

DSIC = (4,861,982 \* 3.00%) + 33,060

 30,275,000

UGI-PNG’s estimated DSIC rate of .59% was calculated using projected costs and capital structure that would be suitable for an April 1, 2014 effective date. UGI-PNG will update this computation ten days before the actual approved effective date of the DSIC rate to reflect the following: the costs of all DSIC-eligible projects that were placed into service during the three month period ending one month prior to the approved effective date; UGI-PNG’S actual capital structure and cost of long term debt as of one month prior to the effective date; and the Commission-allowed rate of return on equity. Therefore, for a DSIC effective October 1, 2014, a three-month period of June through August should be used when calculating the appropriate DSIC rate.

UGI-PNG used a rate of return on equity (ROE) of 10.1% in calculating its DSIC. UGI-PNG states that when the Commission publishes a ROE to be used for DSIC purposes[[3]](#footnote-3), it will revise its tariff filing to reflect the allowed ROE.

UGI-PNG proposes to use one-fourth of its projected annual distribution revenues to calculate projected quarterly revenues, which, according to the Company, makes the DSIC less volatile, more simple, and reflective of the fixed nature of UGI-PNG’s investments. UGI-PNG witness McAllister adds that this approach will result in a more consistent DSIC rate from quarter to quarter. The Company has chosen to base its quarterly revenues on one-fourth of its projected annual revenues to better align the fixed nature of the investment that the DSIC will be recovering with the DSIC rate itself.

**Comments**

The OCA claims that UGI-PNG’s DSIC calculation is incorrect because the DSIC computation does not reflect the impact of accumulated deferred income taxes (ADIT) associated with DSIC investments made by the Company, which in turn permits UGI-PNG to earn a return on an investment balance that exceeds UGI-PNG’s actual investment, and because the calculation of the state income tax component of the DSIC revenue requirement determination requires further examination to ascertain whether it is consistent with the actual taxes paid doctrine.

OCA also expressed concern over UGI-PNG’s proposal to include expenditures related to gathering lines and storage lines as DSIC-eligible investment. OCA questions whether these facilities are actually part of the utility’s distribution system and whether all customers who benefit from the replacement of such lines are required to bear a share of the replacement costs.

OCA states that the DSIC surcharge proposed by UGI-PNG is contrary to the established principles of sound ratemaking and would contribute to bad regulatory policy. The OCA requests that the Commission reject the proposed surcharge, and that the matter be referred to the OALJ for the development of an evidentiary record.

**Resolution**

The Commission acknowledges that UGI-PNG’s calculations are merely estimates and will not be the exact numbers used in the final DSIC calculation. Based on requirements for DSIC quarterly updates, as more fully described below, the Commission directs UGI-PNG to file a DSIC tariff using actual data for eligible property placed into service during the three-month period ending one month prior to the approved effective date of the DSIC. Furthermore, the Commission recognizes that UGI-PNG’s DSIC rate will be set to 0% until, at the earliest, April 1, 2015, in accordance with the UGI Companies’ Settlement at Docket C‑2012‑2308997.

In the calculation of its proposed DSIC, UGI-PNG used one-fourth of the annual depreciation expense based on the eligible-property placed in service for the quarter.  This calculation is consistent with UGI-PNG’s tariff and the Commission’s Model Tariff.  However, to be consistent with what has been allowed for the water utility DSICs as accepted by the Bureau of Audits and approved by the Commission, UGI-PNG should use one-fourth of the annual depreciation expense amount as the basis for its initial accumulated depreciation amount.  Each quarter going forward, the calculated depreciation expense for DSIC purposes should be added to the prior quarters calculated depreciation expense to determine the accumulated depreciation amount.

The cost of equity determinations in the Commission’s Staff Report on Quarterly Earnings of Jurisdictional Utilities (Quarterly Report) are used for DSIC calculations if more than two years have elapsed since a utility’s last fully litigated base rate case. 66 Pa. C.S. § 1357(b)(3). If, in any quarter, a utility will earn more than the ROE used for the DSIC calculations (which may be the ROE determined in the Staff Quarterly Report), the DSIC will be reset to zero. 66 Pa. C.S. § 1358(b)(3). Accordingly, the DSIC must remain at zero until such time that the utility, in a subsequent quarter, earns less than the ROE used for the purpose of DSIC calculation.

The Commission directs that, along with its updated capital structure and cost rates filed one month prior to the approved effective date of the tariff, UGI-PNG shall file a comprehensive debt schedule, outlining all outstanding debts and their associated interest rates that were used to calculate the long term debt cost rate figure.

The Model Tariff makes available to utilities two options for calculating projected quarterly revenues: 1) The summation of projected revenues for the applicable three-month period; or 2) One-fourth of projected annual revenues. In order to maintain a more consistent DSIC rate from quarter to quarter, UGI-PNG chose to use one-fourth of its projected annual distribution revenues as its projected quarterly revenues. The Model Tariff permits the use of one-fourth of annual revenues and the Final Implementation Order recognized the seasonality of revenue issues. Therefore, UGI-PNG’s use of one-fourth of its projected annual distribution revenues as its projected quarterly revenues is appropriate.

OCA expressed concern over UGI-PNG’s proposal to include gathering lines and storage lines as DSIC-eligible property. UGI-PNG states that the statute is clear in allowing DSIC recovery for property that is “part of a utility’s distribution system”, and that a distribution system is defined as a “system owned or operated by a utility”, while also declaring “piping” as eligible property. UGI-PNG submits that gathering and storage lines are part of the Company’s system, and therefore repairs or improvements to such facilities fit within the definition of eligible property in Section 1351 and should be included for recovery under the DSIC.

OCA opines that UGI-PNG’s DSIC calculation should be adjusted to reflect the impact of ADIT associated with DSIC investments made by the Company; otherwise UGI-PNG will earn a return on an investment balance that exceeds UGI-PNG’s actual investment. That is, ADIT can be viewed as a source of zero cost capital. The Commission, in its Implementation Order, has determined that the “adjustment, which was not previously used in the DSIC by the water industry, would add unnecessary complexities to the DSIC and, accordingly, will not be included in the model tariff.” Final Implementation Order, p. 39.

Additionally, OCA is reviewing the calculation of the state income tax component of the DSIC revenue requirement determination to ensure that ratepayers receive the full benefit of the tax deductions consistent with the actual taxes paid doctrine.

The Commission notes that it has previously addressed these very issues in the Columbia Gas DSIC proceeding. *See Petition of Columbia Gas of Pennsylvania, Inc. for Approval of a Distribution System Improvement Charge*, Docket No. P-2012-2338282 (Order entered May 22, 2014) (*May 22nd Order*). We further note that OCA has a pending appeal in Commonwealth Court against the May 22nd Order. Specifically, this appeal involves OCA’s issues related to the impact of ADIT associated with DSIC investments and the calculation of the state income tax component of the DSIC revenue requirement. Hence, we note that OCA has preserved the issue. Accordingly, the ADIT issue is now a legal issue, pending at the Commonwealth Court in the OCA’s appeal the May 22nd Order. However, since there are no additional and non-tax fact issues raised in OCA’s current protest against the UGI-PNG DSIC filing, we will abide by previous resolution in the May 22nd Order and not refer the ADIT issue or the calculation of the state tax component of the DSIC revenue requirement to the OALJ for disposition.

However, we will refer the OCA’s issue related to the inclusion of gathering lines and storage lines as DSIC-eligible property to the OALJ for further disposition. To the extent that UGI-PNG may be permitted to implement a DSIC pending the OALJ proceeding and chooses to do so while this matter is pending in the OALJ, the DSIC recovery shall be subject to recoupment and refund after final resolution.

 **(d) Quarterly Updates**

**UGI-PNG’s Petition**

A utility’s DSIC is subject to quarterly updates to reflect eligible plant additions placed in service during the three-month period ending one month prior to the effective date of any DSIC update. The Proposed Tariff includes a chart of the effective dates of UGI-PNG’s proposed DSIC updates, and the corresponding period for eligible plant additions that will be reflected in each update. The Company states that once its DSIC is implemented, customers will receive notice of quarterly changes in the DSIC through bill messages, consistent with Act 11 and the Final Implementation Order.

**Comments**

OCA has taken issue with the fact that, in its initial non-zero DSIC rate effective April 1, 2015, UGI-PNG has proposed to recover qualifying plant investment placed into service during the period of December 1, 2013 through November 30, 2014, in addition to the customary three month period ending one month prior to the effective date (i.e. December 1, 2014 through February 28, 2015). OCA contends that section 1357(a) of the Public Utility Code only permits recovery of eligible plant that has been placed into service during the three month period ending one month prior to the effective date of the DSIC, and hence, recovering investment from any period prior to December 1, 2014 in an April 1, 2015 effective DSIC rate is not permitted by Section 1357.

This issue stems from the UGI Companies’ Settlement at Docket C‑2012‑2308997, which prohibits the UGI Companies from seeking recovery for any DSIC-related costs for a period of 24 months following Commission approval of the Settlement (approved February 19, 2013). OCA submits that UGI-PNG’s proposal would void the purpose of the Settlement, which specifically prohibits the Company from recovering costs that would otherwise be eligible for recovery under a DSIC.

**Resolution**

OCA has argued that UGI-PNG’s proposal to include qualifying plant investment placed into service during the December 1, 2013 to November 30, 2014 timeframe in its April 1, 2015 DSIC rate is inconsistent with Act 11 and the intent of the Settlement. UGI-PNG disagrees with OCA’s argument, stating that the Company’s proposal is consistent with both Act 11 and the Settlement. UGI-PNG states that the Settlement prohibits recovery of costs during the 24-month non-recovery period, but not thereafter, and that the Company’s proposal achieves this by setting the DSIC rate at 0.0% for the entirety of the 24-month period and starting recovery of eligible plant at the net depreciated book value as of the expiration of the 24-month non-recovery period, in accordance with Act 11. The Company further avers that nowhere in the Settlement does it provide that UGI-PNG should be permanently and completely barred from ever seeking DSIC recovery from investments made during the 24-month period, as OCA contends it should. UGI-PNG concludes that OCA’s notion that DSIC recovery for eligible plant investments made during the 24-month non-recovery period should be permanently and forever denied is inconsistent with the Settlement, Act 11, and would produce a punitive and unreasonable result.

 In regards to the total months for which UGI-PNG may include eligible plant investment in its initial non-zero DSIC rate filing of April 1, 2015, we will refer the issue to OALJ for hearing. With that said, current collections under the DSIC should be limited to the investments made during the three month period ending one month prior to any effective date, and nothing more than that, dependent upon the outcome of the issue in the OALJ proceeding.

In accordance with 66 Pa. C.S. § 1358(e)(2), the revenue received under the DSIC for the reconciliation period shall be compared to the utility's eligible costs for that period. The difference between revenue and costs shall be recouped or refunded, as appropriate, in accordance with section 1307(e), over a one-year period or quarterly period commencing April 1 of each year. Based on the statute mandating over/under collections be refunded commencing April 1 of each year, the Commission directs any utility filing for a DSIC to schedule the effective dates of their proposed DSIC updates, and the corresponding period for eligible plant additions that will be reflected in each update, to align quarterly with the months of April, July, October, and January. UGI-PNG has suggested such a schedule in the filing of their Proposed Tariff, and hence, the Commission deems UGI-PNG’s tariff to be compliant with Section 1353 as it pertains to the issue of quarterly updates.

 **(e) Consumer Protections**

**UGI-PNG’s Petition**

In accordance with the Model Tariff and consistent with Section 1358, UGI-PNG’s Proposed Tariff also includes the following customer safeguards:

1. A 5.0% cap on the total amount of distribution revenue that can be collected through the DSIC by UGI-PNG as determined on an annualized basis;
2. Annual reconciliations performed by UGI-PNG;
3. Audits conducted by the Commission;
4. Customer notice of any changes in the DSIC;
5. A reset of the DSIC to zero as of the effective date of new base rates that include the DSIC-eligible plant; and
6. Provisions for the charge to be set at zero if, in any quarter, UGI-PNG’S most recent earnings report shows that UGI-PNG is earning a rate of return that exceeds the allowable rate of return used to calculate its fixed costs under the DSIC.

As a customer safeguard, the Model Tariff states that the DSIC shall be applied equally to all customer classes. UGI-PNG added to this a provision that specifies that the Company may reduce or eliminate the Rider DSIC to any customer with competitive alternatives or flexed, discounted, or negotiated rates, which is consistent with the Final Implementation Order. UGI-PNG may exclude the Rider DSIC charge from tariffs for customers with competitive alternatives and negotiated contracts. Testimony submitted by UGI-PNG’s McAllister states, “It is the Company’s intention to apply the DSIC to all customers. However, due to contractual constraints, the Company has competitive accounts that are not currently eligible for the application of a rider such as the DSIC.”

**Comments**

OCA agrees that if a customer already receives a discount or has a negotiated rate, UGI-PNG may reduce or eliminate the DSIC if it deems necessary to do so. However, if a customer does not receive a discount or is not paying a negotiated rate because the customer has not demonstrated that they have qualifying competitive alternatives, then UGI-PNG should not waive or reduce the DSIC for that customer. OCA submits that this limitation on when a customer qualifies for discount or elimination of the DSIC is consistent with the intent of the Commission’s Final Implementation Order in allowing for a narrow exemption to the requirements of Section 1358. Accordingly, OCA suggests that the language in the Proposed Tariff should be revised as follows:

“The DSIC shall be applied equally to all customer classes, except that the Company may reduce or eliminate the Rider DSIC to any customer with competitive alternatives *who is paying* flexed, discounted or negotiated rates, *if it is reasonably necessary to do so*.” (Emphasis added for new language.)

**Resolution**

UGI-PNG disagrees with OCA’s notion that the Company’s Proposed Tariff language, as it relates to the treatment of customers with competitive alternatives, is inappropriate. UGI-PNG insists that it will attempt to negotiate renewal provisions in order to make the DSIC apply to competitive customers when possible, but concedes that in some instances that will not be possible due to the highly competitive nature of some customer circumstances. There is nothing in UGI-PNG’s Proposed Tariff language that would lead OCA to conclude that the DSIC will be applied inappropriately, UGI-PNG avers.

 The Commission notes that it has previously addressed this same issue in its *May 22nd Order*. Therefore, for consistency’s sake, we make a likewise determination and agree with OCA’s assertion that UGI-PNG’s Proposed Tariff language should be modified. The language will allow for the exclusion of those customers with competitive alternatives or negotiated contracts, consistent with the Final Implementation Order and the customer safeguards required by 66 Pa. C.S. § 1358. However, prior to such a change going into effect, the Commission must review any future tariff change that would exclude and/or include any customer class. To recap, we determine, as previously concluded in the *May 22nd Order* on this issue, that UGI-PNG’s tariff language as it relates to DSIC application to customers with competitive alternatives or negotiated contracts shall provide as follows:

The DSIC shall be applied equally to all customer classes, except that the Company may reduce or eliminate the Rider DSIC to any customer with competitive alternatives who are paying flexed or discounted rates and customers having negotiated contracts with the Company, if it is reasonably necessary to do so.

 **(2) Public Interest Considerations**

**UGI-PNG’s Petition**

According to the Company, implementing the proposed DSIC and allowing the Proposed Tariff to go into effect is in the public interest because the DSIC will ensure that customers continue to receive safe and reliable service in the future as required by Section 1501, 66 Pa. C.S. § 1501.

In light of its aging mains, UGI-PNG has implemented an accelerated distribution infrastructure replacement program to target the removal and replacement of all cast iron, wrought iron, and bare steel pipeline, along with the gas service lines associated with these types of pipe. Over 30% of UGI-PNG’s pipeline system was constructed prior to 1960, and approximately 15% of the distribution pipe consists of bare steel and cast/wrought iron, which is subject to breakage and corrosion damage from exposure and age. Cast iron pipe is generally recognized as the highest risk pipe within a gas utility’s system, and as such, UGI-PNG plans to remove all of the roughly 50 miles of cast iron pipeline from its system over a 13 year period ending February of 2027. Moreover, UGI-PNG plans to replace all of its approximately 340 miles of bare steel and wrought iron pipeline by September 2041. In addition to its mains, UGI-PNG will replace gas service lines in conjunction with the replacement of the mains to which they are connected, unless otherwise required by the Commission to accelerate the relocation of meters in accordance with the Commission’s Advance Notice of Final Rulemaking Order at Docket No. L‑2009‑2107155, in which case the Company will consider an accelerated service line replacement program as part of the meter relocation program. UGI-PNG avers that the DSIC is an important element in successful implementation of this plan because it will provide the necessary capital to make continued rapid investment possible.

Prior to the accelerated program, UGI-PNG claims it replaced approximately 12 miles of distribution pipeline per year, but with the introduction of the LTIIP, they estimate replacing more than 16 miles of distribution pipeline per year from 2014-2018. Continuing with that trend, UGI-PNG states that during the five-year period of the LTIIP (2014 to 2018), it will increase its capital investment in distribution infrastructure by 66 percent over the historic three-year base period from 2009 to 2011, going from $13.8 million annually to $22.9 million per year. UGI-PNG believes that this increased level of investment in the repair, improvement, and replacement of aging distribution facilities will reduce the number of gas leaks, allow it to install additional safety mechanisms, and generally improve service to its customers. All of these measures, UGI-PNG asserts, will help to provide safer and more efficient service to customers, and hence lend credence to the fact that the LTIIP and its associated DSIC are in the public interest.

UGI-PNG declares that the implementation of a DSIC rate is vital in supporting its efforts to replace its aging distribution system and enhance the safety of its system by ensuring replacement of deteriorating facilities with new, longer lasting, and safer materials. UGI-PNG says the DSIC will ensure the resources the Company needs to carry out its LTIIP strategies, and that because of its application, the public will receive better service with fewer interruptions.

**Comments**

No comments were received regarding the supporting evidence that UGI-PNG’s DSIC is in the public interest.

**Resolution**

Section 1353 requires testimony, affidavits, exhibits, and other supporting evidence to be submitted demonstrating that the DSIC is in the public interest. Based on UGI-PNG’s submitted direct testimonies by the Company’s Principal Analyst and Vice President of Engineering & Operations Support, as well as exhibits demonstrating how the proposed DSIC supports accelerated infrastructure improvement, the Commission concludes that the DSIC filing is in the public interest and that the Company has met its obligation under Section 1353.

 **(3) Long Term Infrastructure Improvement Plan**

Section 1353 requires that the utility have an approved Long Term Infrastructure Improvement Plan (LTIIP). UGI-PNG filed a LTIIP with the Commission on December 12, 2013, which is recommended for approval concurrently with the DSIC.

 **(4) Base Rate Case**

Section 1353(b)(4) requires a utility to certify that it has filed a base rate case within the five years prior to the date of its DSIC petition. UGI-PNG has provided the required certification that its last base rate case, under which UGI-PNG’s current base rates were established, was filed on January 28, 2009.[[4]](#footnote-4)

 **(5) Other Information Required by the Commission**

**Section 1354 - Customer Notice**

Pursuant to Section 1354, a utility is required to provide customer notice of: 1) Submission of the DSIC petition; 2) Commission’s disposition of the DSIC petition; 3) Any quarterly changes to the DSIC rate; and 4) Any other information required by the Commission. UGI-PNG has verified that it will provide customer notice of the proposed DSIC, Commission action thereon, and quarterly updates through bill inserts, consistent with Act 11 and the Final Implementation Order.

UGI-PNG will provide a bill insert to all customers informing them of the filing, the estimated impact of a DSIC on their bills, and their rights to intervene in the proceeding. The language on the bill insert was developed through feedback from the Commission and other interested parties.

The Commission agrees that this is consistent with the notice requirements set forth in the Model Tariff, Act 11, and the Final Implementation Order.

**Bills Rendered or Service Rendered**

The Final Implementation Order directed utilities to bill customers for the DSIC on a bills rendered basis versus a service rendered basis[[5]](#footnote-5), based on current practice and procedure for water companies. (*See* 66 Pa. C. S. § 1358). UGI-PNG’s proposed tariff did not specify whether billing for the DSIC would be on a bills rendered or a service rendered basis. Therefore, in accordance with the Final Implementation Order, we direct UGI-PNG to modify the language in the proposed tariff to specify that customers would be billed for the DSIC on a bills rendered basis.

**Section 1355 – Commission Review**

Section 1355 provides that the Commission shall, after notice and opportunity to be heard, approve, modify or reject a utility’s proposed DSIC and initial tariff. The Bureau of Technical Utility Services has reviewed UGI-PNG’s proposed DSIC and Proposed Tariff and has determined that the filing contains all necessary items identified in Section 1353.

**DSIC SUMMARY**

We will approve the proposed DSIC calculation and Proposed Tariff subject to the modifications consistent with this Order, including the following:

1. A tariff filed on ten days’ notice with an effective date no earlier than October 1, 2014;
2. A three-month period of June through August for eligible plant additions;
3. An initial quarterly depreciation expense being equal to the initial accumulated depreciation; and,
4. An appropriate return on equity as displayed in the Commission’s Quarterly Report for the period ending March 31, 2014.

Section 1355 also states that the Commission shall hold evidentiary and public input hearings as necessary to review the petition. As noted above, OCA and OSBA have petitioned to intervene in UGI-PNG’s DSIC proceeding, and there were requests to hold evidentiary hearings on several aspects of the DSIC.

Accordingly, we will refer the matters of DSIC recovery of expenditures related to the inclusion of gathering lines and storage lines as DSIC-eligible property, as well as costs associated with “other related capitalized costs” – including, but not limited to, regulator stations and equipment, electronic systems and software, and vehicles, tools and power equipment – to the OALJ for hearing and recommended decision. We shall also refer the issue of UGI-PNG’s proposal to include qualifying plant investment placed into service during the December 1, 2013 to November 30, 2014 timeframe in its April 1, 2015 DSIC rate to the OALJ for evidentiary hearings and preparation of a recommended decision. To the extent that UGI-PNG elects to implement a DSIC mechanism prior to resolution of these matters, any recovery will be subject to refund or recoupment consistent with final determinations on these matters referred to OALJ.

We note the filing of OSBA, and conclude that they have not articulated a basis for denying UGI-PNG the opportunity to implement a DSIC mechanism, consistent with our discussion above.

**CONCLUSION**

Upon review, the Commission finds that the UGI-PNG Long-Term Infrastructure Improvement Plan and manner in which it was filed conforms to the requirements of Act 11 and our Final Implementation Order.

Additionally, the Commission finds that the Petition of UGI-PNG for a Distribution System Improvement Charge complies with the requirements of Act 11 and our Final Implementation Order. Moreover, the Commission has reviewed the filing and does not find it to be inconsistent with the applicable law or Commission policy. Subject to recoupment and/or refund pending final resolution of the matters referred herein to the OALJ, UGI-PNG may elect to implement a DSIC mechanism consistent with this order on ten days’ notice; **THEREFORE,**

**IT IS ORDERED:**

1. That the Petition for approval of a Long-Term Infrastructure Improvement Plan (LTIIP) filed by UGI Penn Natural Gas, Inc. is approved, consistent with this Order.

2. That the Petition for approval of a Distribution System Improvement Charge (DSIC) filed by UGI Penn Natural Gas, Inc. is approved, consistent with this Order.

3. That UGI Penn Natural Gas, Inc. shall file a tariff, consistent with this Order, on ten days’ notice to be effective October 1, 2014. Revenues collected pursuant to said tariff will be subject to refund and recoupment based on the Commission’s final resolution of the matters referred herein to the Office of Administrative Law Judge for hearing and recommended decision.

4. That the following issues be assigned to the Office of Administrative Law Judge for hearing and preparation of a recommended decision:

* 1. DSIC-recovery of costs related to “other related capitalized costs”, including but not limited to, regulator stations and equipment, electronic systems and software, and vehicles, tools and power equipment;
	2. DSIC-recovery of expenditures related to the inclusion of gathering lines and storage lines as DSIC-eligible property; and
	3. Proposal of UGI Penn Natural Gas, Inc. to include qualifying plant investment placed into service during the December 1, 2013 to November 30, 2014 timeframe in its April 1, 2015 DSIC rate.

5. That UGI Penn Natural Gas, Inc. provides the estimated number of anticipated new jobs to be created for specific replacement projects with its revised DSIC tariff and to track such employment in order to have actual numbers of jobs created when the DSIC fund information is submitted for annual audit and reconciliation.



**BY THE COMMISSION,**

 Rosemary Chiavetta

 Secretary

(SEAL)

ORDER ADOPTED: September 11, 2014

ORDER ENTERED: September 11, 2014

**Appendix A**

**Tariff Sufficiency Modifications**

* On page 35(b), under “14.C.4 Computation of the DSIC”, the last word on the second-to-last line “This”, should be changed to “Thus”.
* On page 35(d), under “2. Audit/Reconciliation” of the Customer Safeguards section, on the ninth line, “March 1” should be changed to “April 1”.
* On page 35(d), under “2. Audit/Reconciliation” of the Customer Safeguards section, on the second-to-last line, “et seg” should be changed to “et seq”.
* On page 35(d), under “3. New Base Rates” of the Customer Safeguards section, on the third line, the phrase “have not previously been” should be changed to “had previously been”.
* On page 35(d), under “3. New Base Rates” of the Customer Safeguards section, in the last sentence, the phrase “…..will be *reflecting* in the quarterly *updated* of the DSIC.” should be changed to “…...will be *reflected* in the quarterly *updates* of the DSIC.”
1. <http://www.legis.state.pa.us/WU01/LI/LI/US/HTM/2012/0/0011..HTM>. [↑](#footnote-ref-1)
2. The quarters are fixed by statute. If UGI-PNG does not have an effective date of October 1, 2014, the next earliest effective date would be January 1, 2015. [↑](#footnote-ref-2)
3. The ROE to be used in the DSIC calculation will be that which is calculated by the Commission in its most recent Quarterly Report on the Earnings of Jurisdictional Utilities. [↑](#footnote-ref-3)
4. Docket No. R-2008-2079660, Final Order entered on August 27, 2009. [↑](#footnote-ref-4)
5. “Bills rendered” bills are computed based on the effective tariff rate at the time of the bill. “Service-rendered” bills are prorated based on service rendered before and after a tariff rate change. [↑](#footnote-ref-5)