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VIA E-FILING

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

**Re: *En Banc* Hearing on Alternative Ratemaking Methodologies,
Docket No. M-2015-2518883**

Dear Secretary Chiavetta:

Enclosed please find the comments of the UGI Distribution Companies filed in response to the Commission's Order December 31, 2015 Secretarial Letter at the above docket.

Very truly yours,

Mark C. Morrow

Counsel for the UGI Distribution Companies

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

En Banc Hearing on Alternative :
Ratemaking Methodologies : Docket No. M-2015-2518883

**COMMENTS OF THE
UGI DISTRIBUTION COMPANIES**

I. INTRODUCTION

The UGI Distribution Companies (“UGI”), comprised for the purpose of this submission of UGI Central Penn Gas, Inc. (“CPG”), UGI Penn Natural Gas, Inc. (“PNG”) and UGI Utilities, Inc. – Gas Division (“UGI-GD”), appreciate this opportunity to submit comments in response to the presentations made at the Commission’s March 3, 2016 *En Banc* hearing at the above docket. UGI provides natural gas distribution service to in excess of 617,000 customers in the Commonwealth through approximately 12,000 miles of gas mains. UGI’s distribution systems comprise a significant and important part of the Commonwealth’s infrastructure, and enable many of the Commonwealth’s citizens, businesses and institutions to realize the economic, environmental, energy efficiency and energy security benefits associated with the Commonwealth’s and the nation’s abundant natural gas supplies.

The Commission’s notice of its hearing indicated that it would address:

alternative ratemaking methodologies, such as revenue decoupling, that remove disincentives that might presently exist for energy utilities to pursue aggressive energy conservation and efficiency initiatives. The purpose of this hearing is to permit participants to inform the Commission on the following rate issues: (1) whether revenue decoupling or other similar rate mechanisms encourage energy utilities to better implement energy efficiency and conservation programs; (2) whether such rate mechanisms are just and reasonable and in the public interest;

and (3) whether the benefits of implementing such rate mechanisms outweigh any costs associated with implementing the rate mechanisms.

UGI believes the presentations at the *En Banc* hearing presented well-balanced, comprehensive and useful information for the Commission and other policy makers to consider in setting future energy policies in the Commonwealth. In deciding on any future course of action, however, UGI would ask the Commission to consider the following comments which are intended to supplement those submitted by the Energy Association of Pennsylvania of which UGI is a member.

II. COMMENTS

It is important to remember in pursuing any policy to promote energy efficiency that, on a total fuel cycle basis, the direct end use of natural gas is far more efficient than using electricity generated with fossil fuels. The direct end use of natural gas in American homes and businesses achieves a 92% energy efficiency, and a household with natural gas versus all electric appliances produces 37% lower greenhouse gas emissions.¹ The direct end use of natural gas is more efficient than electricity for most uses because the process of converting natural gas or other fuels into electricity and delivering it to power comparable electric end-use products only maintains 32% of useable energy.*Id.* As a result of this significant efficiency advantage, natural gas is able to deliver significant energy cost saving to consumers when it is available and also deliver significant carbon reducing environmental benefits. In supporting the expansion of natural gas use in the Commonwealth, UGI proposed and implemented an innovative GET Gas program which is helping to expand UGI's natural gas distribution grid and displace other less environmentally beneficial fuels in unserved and underserved areas. Of course natural gas

¹ See American Gas Association 2016 Playbook at <https://www.aga.org/>.

cannot be used for all of the purposes which electricity can at this time, but UGI and others are increasingly serving distributed combined heat and power (“CHP”) facilities which generate electricity and use the associated exhaust heat for heating or cooling purposes, thereby overcoming much of the energy losses associated with generating power from a central location and distributing it through transmission and distribution facilities. The energy efficiency potential for CHP was recently chronicled in the February 13, 2015 *Pennsylvania Potential Distributed Generation Potential Study Report* prepared by Penn State for the Commission, which showed a technical potential of 1,257,670 MWh of annual saving from CHP in a manner which is cost effective under the Total Resource Cost test. At its February 25, 2016 Public Meeting, the Commission also directed its staff to draft a policy statement designed to encourage EDCs and NGDCs to make CHP an integral part of their energy efficiency and resiliency plans, as well as their marketing and outreach efforts.

While to-date the Commonwealth’s signature energy efficiency initiatives, such as Act 129, have provided significant focus on EDC energy and demand efficiency programs, future revenue decoupling initiatives may be focused on removing disincentives and potentially laying the ground work for incentives for further EDC energy efficiency initiatives. The Commission has been a leader in recognizing fuel substitution as a viable component of EDC Act 129 programs, however to-date it has been reluctant to mandate such programs because of the punitive nature of Act129 penalties. To the extent the Commission removes disincentives or provides additional incentives to EDCs to promote energy efficiency, it should take a more active role in assuring that the energy efficiency

potential of the direct end use of natural gas or CHP is achieved. Revenue decoupling can be an important element in achieving that goal.

UGI would also note that revenue decoupling can remove disincentives and lay the groundwork for incentives for NGDC energy efficiency programs, but to the extent revenue decoupling or other alternative ratemaking methodologies are utilized to achieve this goal, they should be carefully constructed and allow for innovative approaches to be offered and considered so as not to unintentionally provide a disincentive to the active expansion of natural gas distribution systems or customer growth along existing system segments since such expansions and customer growth promote, rather than diminish, energy efficiency; a one-size-fits-all approach to revenue decoupling should be avoided. The Commission should also be mindful that in considering natural gas efficiency programs proposed by NGDCs, it is not constrained by the punitive penalty structure and restrictions in considering lost revenues set forth in Act 129, and also has the power under 66 Pa.C.S. §523(b)(4) to consider the presence of such programs in setting NGDC rates. Moreover, the proper use of revenue decoupling in the Commonwealth for both EDCs and NGDCs can be a key element of a broad plan to achieve compliance with the EPA's Clean Power Plan.

UGI also is fully aware of the many competitive pressures that buffet the Commonwealth's larger commercial and industrial energy users, and has appreciated the flexibility the Commission has granted UGI through its rate structure to be able to meet competition from alternate energy sources and preserve revenue contributions from such customers toward fixed system costs. Given the competitive realities faced by such

customers, UGI would fully support exempting such customers from any revenue decoupling initiatives.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mark C. Morrow". The signature is fluid and cursive, with the first name "Mark" being the most prominent.

Mark C. Morrow

Counsel for the UGI Distribution
Companies

Dated: March 16, 2016