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File #: 153583

March 31, 2016

***VIA ELECTRONIC FILING***

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street, 2nd Floor North  
P.O. Box 3265  
Harrisburg, PA 17105-3265

**Re: Petition of UGI Penn Natural Gas, Inc. for a Waiver of the Distribution System Improvement Charge Cap of 5% of Billed Distribution Revenues and Approval to Increase the Maximum Allowable DSIC to 10% of Billed Distribution Revenues  
Docket No. P-2016-**

Dear Secretary Chiavetta:

Enclosed for filing is the Petition of UGI Penn Natural Gas, Inc. in the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,



Jessica R. Rogers

JRR/jl

Enclosures

cc: Certificate of Service

## CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

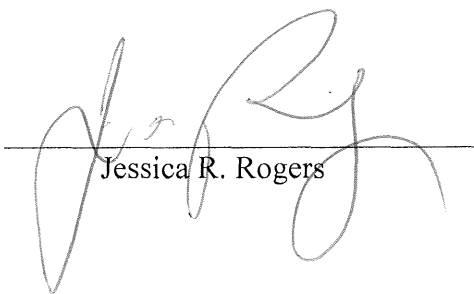
### VIA FIRST CLASS MAIL

Steven C. Gray, Esquire  
Office of Small Business Advocate  
Commerce Building  
300 North Second Street, Suite 202  
Harrisburg, PA 17101

Office of Consumer Advocate  
555 Walnut Street  
Forum Place, 5th Floor  
Harrisburg, PA 17101-1923

Bureau of Investigation & Enforcement  
PO Box 3265  
Commonwealth Keystone Building  
400 North Street, 2nd Floor West  
Harrisburg, PA 17105-3265

Date: March 31, 2016



Jessica R. Rogers

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of UGI Penn Natural Gas, Inc. for :  
a Waiver of the Distribution System : Docket No. P-2016-\_\_\_\_\_  
Improvement Charge Cap of 5% of Billed :  
Distribution Revenues and Approval to :  
Increase the Maximum Allowable DSIC to :  
10% of Billed Distribution Revenues

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**Petition of UGI Penn Natural Gas, Inc. for a Waiver of the Distribution System  
Improvement Charge Cap of 5% of Billed Distribution Revenues and Approval to Increase  
the Maximum Allowable DSIC to 10% of Billed Distribution Revenues**

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Pursuant to Section 1358(a) of the Public Utility Code, 66 Pa. C.S. § 1358(a), UGI Penn Natural Gas, Inc. (“UGI-PNG” or the “Company”) hereby files this Petition requesting (i) waiver of the Distribution System Improvement Charge (“DSIC”) cap of 5% of billed distribution revenues and (ii) approval to increase the maximum allowable DSIC from 5% to 10% of billed distribution revenues. UGI-PNG has undertaken a significant distribution system infrastructure evaluation, repair and replacement program that is focused primarily on those portions of its system that were constructed using cast iron and bare steel pipe.

By this Petition, the Company respectfully requests that the Pennsylvania Public Utility Commission (the “Commission”) approve UGI-PNG’s Petition, and allow UGI-PNG to increase its DSIC cap above 5% of billed distribution revenues, as currently reflected in UGI-PNG’s tariff and approved by the Commission in the Company’s DSIC proceeding at Docket No. P-2013-2397056. UGI-PNG requests that the Commission grant this Petition on or before the June 9, 2016 Public Meeting, subject to refund based on the outcome of any hearing that may be required. Doing so will allow UGI-PNG to reflect the increased cap in its June 20, 2016

quarterly update, which will become effective July 1. UGI-PNG supports its request for expedited consideration below.

## **I. INTRODUCTION**

1. UGI-PNG is a corporation organized and existing under the laws of the Commonwealth of Pennsylvania. UGI-PNG is engaged 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 provides natural gas service to approximately 168,000 customers in and around Northeastern Pennsylvania, pursuant to certificates of public convenience granted by the Commission. Its system contains approximately 2,562 miles of natural gas distribution mains and 50 miles of natural gas transmission mains as of December 31, 2015.

2. UGI-PNG is a wholly owned subsidiary of UGI Utilities, Inc. (“UGI Utilities”), which, in turn, is a wholly owned subsidiary of UGI Corporation. UGI-PNG began operations as a wholly owned subsidiary of UGI Utilities on September 1, 2006, via UGI Utilities’ acquisition of the assets of the PG Energy Division of Southern Union Company, as approved by the Commission.<sup>1</sup>

3. The names, addresses and telephone numbers of UGI-PNG’s attorneys for purposes of this filing are as follows:

Danielle Jouenne (ID #306839)  
UGI Corporation  
460 North Gulph Road  
King of Prussia, PA 19406  
Phone: 610-992-3750  
Fax: 610-992-3258

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<sup>1</sup> See Opinion and Order entered on August 18, 2006 at Docket Nos. A-120011F2000, A-125146F5000 and A-125146.

E-mail: JouenneD@ugicorp.com

David B. MacGregor (ID # 28804)  
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UGI-PNG's attorneys are authorized to receive all notices and communications regarding this filing.

4. On February 14, 2012, Governor Corbett signed into law Act 11 of 2012 ("Act 11"), which amends Chapters 3, 13 and 33 of Title 66 of the Public Utility Code ("Code"). Pertinent to this Petition, Act 11 authorizes natural gas distribution companies ("NGDCs") to establish a Distribution System Improvement Charge ("DSIC").

5. Act 11 provides utilities 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. Eligible property for NGDCs is defined in Section 1351 of the statute. *See* 66 Pa. C.S. § 1351(2). As a precondition to the implementation of a DSIC, each utility must file a Long Term Infrastructure Improvement Plan ("LTIIP") with the Commission that is consistent with the provisions of Section 1352 of the statute. *See* 66 Pa. C.S. § 1352(a).

6. On August 2, 2012, the Commission issued the Final Implementation Order establishing procedures and guidelines necessary to implement Act 11. *See Implementation of Act 11 of 2012*, Docket No. M-2012-2293611 (Pa. Pub. Util. Comm'n Aug. 2, 2012) ("Final Implementation Order"). The Final Implementation Order adopted the requirements established

in Section 1353 for the DSIC filing. In addition, the Commission provided a model tariff which the utilities were instructed to use in preparing their DSIC tariff.

7. On December 12, 2013, UGI-PNG filed a *Petition for Approval of a Distribution System Improvement Charge* (“DSIC Petition”), as well as a *Petition for Approval of a Long-Term Infrastructure Improvement Plan*. UGI-PNG’s DSIC Petition included all of the components required by Act 11 and the Commission’s Final Implementation Order. By Order entered September 11, 2014, the Commission approved UGI-PNG’s proposed LTIIIP and DSIC, subject to refund, pending final resolution of four issues that were assigned to the Office of Administrative Law Judge (“OALJ”). *See 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*, Docket No. P-2013-2397056 (Opinion and Order entered September 11, 2014). UGI-PNG was able to reach a settlement with the other parties in the proceeding. By Order entered July 8, 2015, the Commission approved the settlement. *Petition of UGI Penn Natural Gas, Inc. for Approval of a Distribution System Improvement Charge*, Docket No. P-2013-2397056 (Opinion and Order entered July 8, 2015).

8. Consistent with the Commission’s September 11, 2014 Order, on September 18, 2014, UGI-PNG filed Supplement No. 33 to UGI Penn Natural Gas, Inc. Tariff Gas – Pa. P.U.C. No. 8 implementing the DSIC for bills rendered on or after October 1, 2014. The initial DSIC was set at 0.0% pursuant to the Commission’s Order. UGI-PNG has filed quarterly updates to its DSIC rate, including a filing made on March 21, 2016. In that filing, which UGI-PNG has included with this Petition as Exhibit WJM-1 to the direct testimony of William J. McAllister, UGI Statement No. 1, UGI-PNG has a DSIC rate of 5.00%.

9. A utility with an approved DSIC must file an Annual Asset Optimization Plan (“AAOP”). *See* 66 Pa. Code § 1356. UGI-PNG has filed an AAOP for all years that it has had

an approved LTIIIP. Each of the AAOPs identifies the progress UGI-PNG has made with regard to its LTIIIP, as well as identifying the projects that will be accomplished in the next year of the plan. The most recent of these filings was made on February 29, 2016 at Docket No. M-2016-2531527, and is included with this filing as Exhibit WJM-4.

10. On February 29, 2016, UGI-PNG filed a *Petition for Approval of a Modification to its Long Term Infrastructure Improvement Plan* (“Modified LTIIIP”), which has been docketed at P-2013-2397056. In the Modified LTIIIP, UGI-PNG identified increased DSIC-eligible investment over the remaining period of the original LTIIIP that exceeded 20% of the cost of the plan, triggering the Commission’s requirements at 52 Pa. Code § 121.5(a). The increased investment is driven by three categories of previously identified projects: system reliability improvements, service replacements, and mandated relocations of utility facilities. No action has been taken by the Commission on the Modified LTIIIP at the time this Petition was filed.

11. As explained below, the revenue provided by the DSIC with a 5% cap is not sufficient for UGI-PNG to maintain its level of investment in its DSIC-eligible distribution infrastructure, due to the Company’s substantial ongoing investment in DSIC-eligible plant, particularly mains. UGI-PNG is seeking to increase the DSIC surcharge cap to 10% of billed distribution revenues to ensure that customers continue to receive safe and reliable service in the future as required by Section 1501, 66 Pa. C.S. § 1501.

## **II. AN INCREASE IN THE DSIC IS PROPER AND IN THE PUBLIC INTEREST**

12. Section 1358(a)(1) of the Public Utility Code provides that the “[C]ommission may upon petition grant a waiver of the 5% limit under this paragraph for a utility in order to ensure and maintain adequate, efficient, safe, reliable and reasonable service.” 66 Pa. C.S. 1358(a)(1).

13. Included as part of this Petition is the direct testimony of William J. McAllister, UGI Statement No. 1. Mr. McAllister's testimony in support of the Petition includes the following exhibits: Exhibit WJM-1, which is the quarterly update filed on March 21, 2016; Exhibit WJM-2, which is a *pro forma* tariff reflecting the revision proposed in the Petition; Exhibit WJM-3, which is a schedule showing the Company's projected DSIC updates from the current quarter – April 1, 2016, through the final quarterly update associated with the current LTIP period, which would become effective January 1, 2019; and Exhibit WJM-4, which is a copy of the Annual Asset Optimization Plan (“AAOP”) filed by UGI-PNG on February 29, 2016.

14. UGI-PNG requests a waiver of the 5% cap on the DSIC rate, and approval to increase the DSIC cap from 5% to 10% of billed distribution revenues. As explained herein, the revenue provided by the DSIC with a 5% cap is not sufficient for UGI-PNG to maintain its level of investment in its DSIC-eligible distribution infrastructure. UGI-PNG has already exceeded the 5% DSIC cap, due to the Company's substantial ongoing investment in DSIC-eligible plant. UGI-PNG is seeking to increase the DSIC surcharge cap to 10% in order to maintain its accelerated replacement program which allows it to ensure that customers receive safe and reliable service as required by Section 1501, 66 Pa. C.S. § 1501. Even with a 10% cap, UGI-PNG will exceed the DSIC cap well before the end of the current LTIP period.

15. As identified in UGI-PNG's Modified LTIP, the Company anticipates spending almost \$85.5 million in DSIC-eligible plant from January 2016 through December 2018. This work is critical to the continued provision of safe and reliable service, as required by 66 Pa. C.S. § 1501. The Company is currently investing almost \$25 million per year in DSIC-eligible projects. This represents an 80% increase over the amount of investment in the baseline period of 2009 to 2011. The Company's 2016 AAOP, which is included with Mr. McAllister's



testimony as Exhibit WJM-4, shows a more detailed accounting of how UGI-PNG has exceeded its anticipated investment in the early years of its LTIP, and also shows how the Company plans on meeting the investment identified in the Modified LTIP for 2016.

16. UGI-PNG has already exceeded the 5% DSIC cap, which is shown in the quarterly filing made on March 21, 2016 included with this filing as Exhibit WJM-1. The calculations in Exhibit WJM-3 demonstrate the impact on recovery of revenue resulting from UGI-PNG exceeding the 5% cap. The Company will also exceed a 10% DSIC cap well before the end of the current LTIP period. Increasing the DSIC cap to 10% would allow UGI-PNG to extend its use of the DSIC to October 1, 2017 before it would be limited in its ability to recover its investment.

17. UGI-PNG will begin to experience unrecoverable dollars that are associated with revenue that exceeds the 5% DSIC cap on April 1, 2016. Exhibit WJM-3 reflects these unrecoverable dollars on both a quarterly and an accruing basis. Without an increase, by October 1, 2017, UGI-PNG will have foregone more than \$7.8 million worth of revenue associated with DSIC-eligible plant. It is likely that this type of monetary loss would require UGI-PNG to support its infrastructure investments through a base rate proceeding.

18. For each 1% increase to the DSIC cap, the impact on customer bills increases by only \$0.48 per monthly bill. Described differently, if the DSIC is increased to 10% as UGI-PNG requests herein, the difference in the cost to customers between the 5% DSIC cap and the 10% DSIC cap, once the 10% DSIC cap is reached, would be \$2.39 per bill. This incremental cost to customers is small when compared to the noticeable benefits. The value of accelerated infrastructure improvement is substantial, benefiting customers today and well into the future with safe, reliable, and reasonably continuous natural gas service, with the potential for less frequent base rate filings. Further, Act 11 and the Commission have established adequate

safeguards in the DSIC process to ensure that the DSIC is appropriately monitored and that ratepayers are adequately protected, which are embodied in UGI-PNG's tariff.

19. The work being done to the system is ensuring that UGI-PNG's customers receive safe and reliable service, both now and into the future. Increasing the DSIC cap will further the work UGI-PNG is doing, without the added expense and administrative burden associated with frequent base rate proceedings. The costs associated with compiling and prosecuting a full rate case – costs which are passed through to customers – can be significant. Because the impact of increasing the DSIC cap on customers' bills is small, the tremendous benefits associated with improved safety and reliability that will be accomplished as a result of the accelerated investment in DSIC-eligible plant is clearly in the public interest.

20. UGI-PNG is requesting that this Petition be granted on an expedited basis and subject to refund, so that the increased DSIC cap can be effective as of July 1, 2016. Without such treatment, UGI-PNG will be unable to recover \$624,064 for the period from July 1 through September 30, 2016, and will be unable to recover an additional \$938,251 for the period from October 1 to December 31, 2016. Implementing this Petition on July 1, 2016, subject to refund, ensures that the Commission and other parties will have a full opportunity to assess the justness and reasonableness of the Company's proposal, while allowing UGI-PNG to recover the full investment associated with DSIC eligible infrastructure replacement.

21. The approach proposed by UGI-PNG is consistent with past Commission action in proceedings that involve charges subject to annual reconciliation. The Commission has allowed many utilities to implement their DSIC mechanisms subject to refund while the case was assigned to the Office of Administrative Law Judge for disposition. Thus, UGI-PNG believes that similar treatment is also appropriate in this context.

22. Consistent with its request, UGI-PNG has included Exhibit WJM-2, which contains *pro forma* tariff pages for the proposed increase in the DSIC cap from 5% to 10% of billed distribution revenues.

**CUSTOMER NOTICE**

23. UGI-PNG has served copies of the filing on the Pennsylvania Office of Consumer Advocate, Pennsylvania Office of Small Business Advocate, and the Commission's Bureau of Investigation and Enforcement.

24. UGI-PNG will also post this filing at its customer website.

25. In addition, the Company requests that the Commission publish notice of this filing in the Pennsylvania Bulletin with a reasonable deadline for intervention as part of that notice.

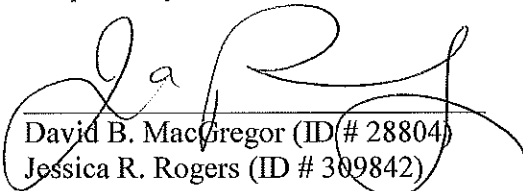
26. UGI-PNG believes that these methods will provide all interested parties with notice of the Company's proposal to increase its maximum DSIC surcharge to 10%, and an opportunity to participate in any Commission proceeding.

**III. CONCLUSION**

WHEREFORE, UGI Penn Natural Gas, Inc. respectfully requests that the Pennsylvania Public Utility Commission (i) grant a waiver of the current Distribution System Improvement Charge cap of 5% of billed distribution revenues, and (ii) approve an increase in the maximum allowable Distribution System Improvement Charge from 5% to 10% of billed distribution revenues, as set forth in the *pro forma* tariff supplement provided in Exhibit WJM-2, effective upon approval of this Petition.

Respectfully submitted,

Danielle Jouenne (ID #306839)  
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Of Counsel:

Post & Schell, P.C.

Attorneys for UGI Penn Natural Gas, Inc.

Date: March 31, 2016

## VERIFICATION

I, Paul J. Szykman, Vice President, Rates & Government Relations, Vice President & General Manager – Electric Utilities, of UGI Utilities, Inc., hereby state that the facts above set forth are true and correct to the best of my knowledge, information and belief and that I expect that UGI Penn Natural Gas, Inc. to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

Date: March 31, 2016

  
\_\_\_\_\_  
Paul J. Szykman  
Vice President, Rates & Government Relations  
Vice President & General Manager – Electric Utilities  
UGI Utilities, Inc.  
2525 N. 12th Street  
Reading, PA 19612-2677

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**UGI PENN NATURAL GAS, INC.  
DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (DSIC)**

**UGI STATEMENT NO. 1**

**DIRECT TESTIMONY OF  
WILLIAM J. McALLISTER**

Dated: March 31, 2016

1 **Q. Please state your name and business address.**

2 A. My name is William J. McAllister, and my business address is 2525 N. 12<sup>th</sup> Street, Suite  
3 360, Reading, Pennsylvania 19612.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am employed by UGI Utilities, Inc. (“UGI” or the “Company”) as a Principal Analyst.  
6 In my role, I am responsible for numerous rate activities for the UGI distribution  
7 companies: UGI Utilities, Inc. – Gas Division (“UGI-GD”), UGI Utilities, Inc. – Electric  
8 Division (“UGI-ED”), UGI Central Penn Gas, Inc. (“UGI-CPG”) and UGI Penn Natural  
9 Gas, Inc. (“UGI-PNG”).

10 **Q. What is your educational background?**

11 A. I graduated from Villanova University with a Bachelor of Science Degree in  
12 Mathematics. I have received certification in the Principles of Public Utility Operation  
13 and Management from Public Utilities Report, Inc. I have taken graduate level courses at  
14 the Pennsylvania State University at Harrisburg. I have also completed numerous  
15 industry related training programs and seminars, including the American Gas Association  
16 (“AGA”) Rate Course and the AGA Advanced Rate Course.

17 **Q. Please describe your employment since graduating from Villanova University.**

18 A. Upon graduation in 1974, I was employed as a Statistical Analyst with UGI's Gas Utility  
19 Division. This position involved (1) various assignments relating to rate design and  
20 competitive analysis, (2) preparing related rate filings such as the monthly Fuel Cost  
21 Adjustment (FCA), the State Tax Surcharge (STS), and (3) assisting in the preparation of  
22 general rate filings. In 1976, I was promoted to Rate Analyst. In 1980, I was promoted  
23 to the position of Senior Rate Analyst. In 2011, I was promoted to my current position of

1 Principal Analyst. Since 1985, I have been involved to a significant extent in the  
2 preparation of UGI-GD's PGC tariff filings and related PGC computations. More  
3 recently, I prepared UGI-GD's interim and quarterly PGC rate changes. Additionally, I  
4 developed UGI-GD's Section 1307(a) filings to recover Take-or-Pay (TOP) costs,  
5 Transition Costs, and Education Costs. I also assisted in developing UGI-GD's Low  
6 Income Self Help Program (LISHP) Rider that initially became effective December 2,  
7 2005, and assisted in developing UGI's quarterly LISHP adjustments since then,  
8 including the change implemented on June 1, 2010. Similarly, I have coordinated the  
9 development of the USP Rider surcharges for both UGI-PNG and UGI-PNG. Most  
10 recently, I've assisted in Base Rate Case filings for UGI-PNG and UGI-PNG, the  
11 Merchant Function Charge and Purchase of Receivable filings for UGI-GD and the  
12 development of the Energy Efficiency and Conservation Program for UGI-ED.

13 **Q. Have you previously testified before the Pennsylvania Public Utility Commission?**

14 A. Yes. I have testified in each of UGI's PGC proceedings since 1988, in UGI's 1307(a)  
15 proceedings at Docket Nos. R-00943259 and R-00943063, and in the UGI Customer  
16 Choice proceeding at Docket No. R-00994786. I presented direct testimony in UGI-  
17 PNG's PGC proceedings at Docket Nos. R-2009-2105909, R-2010-2172922, R-2011-  
18 2238949, R-2012-2302219, and R-2013-2361771. I've presented testimony in the last  
19 five UGI-PNG PGC proceedings, as well as the Energy Efficiency and Conservation Plan  
20 proceedings for UGI-ED at Docket No. M-2010-2210316. I also presented testimony on  
21 behalf of UGI-PNG and UGI-PNG in their DSIC proceedings at Docket Nos. P-2013-  
22 2397056 and P-2013-2398835.

23



1 **Q. What is the purpose of your testimony?**

2 A. My testimony supports the Company's request that the Commission waive the 5% DSIC  
3 cap provided in 66 Pa. C.S. § 1358(a), and increase the DSIC cap to 10%. In my  
4 testimony, I will describe why this increase is necessary, the financial impact of allowing  
5 an increase in the DSIC cap, and also the impact an increase in the DSIC cap will have on  
6 customer bills.

7 **Q. Please begin by describing the exhibits provided with this testimony.**

8 A. My testimony includes the following exhibits that I am sponsoring:

9 a) Exhibit WJM-1, which is the Company's quarterly DSIC update filed on March  
10 21, 2016;

11 b) Exhibit WJM-2, which is a *pro forma* tariff reflecting the revision proposed in the  
12 Petition;

13 c) Exhibit WJM-3, which is a schedule showing the Company's projected DSIC  
14 updates from the current quarter – April 1, 2016, through the final quarterly  
15 update associated with the current LTIIP period, which would become effective  
16 January 1, 2019. I will describe WJM-3 in greater detail later in my testimony;  
17 and

18 d) Exhibit WJM-4, which is a copy of the Annual Asset Optimization Plan  
19 (“AAOP”) filed by UGI-PNG on February 29, 2016.

20 **Q. What is the scope of UGI-PNG's service?**

21 A. UGI-PNG distributes natural gas to retail customers within the Commonwealth of  
22 Pennsylvania. UGI-PNG provides natural gas service to approximately 168,000  
23 customers in and around Northeastern Pennsylvania, pursuant to certificates of public

1 convenience granted by the Commission. Its system contains approximately 2,562 miles  
2 of natural gas distribution mains and 50 miles of natural gas transmission mains as of  
3 December 31, 2015.

4 **Q. Please describe the history of the Company's DSIC.**

5 A. Act 11 provides utilities with the ability to implement a DSIC to recover reasonable and  
6 prudent costs incurred to repair, improve or replace certain eligible distribution property  
7 that is part of the utility's distribution system. Eligible property for NGDCs is defined in  
8 Section 1351 of the statute. See 66 Pa. C.S. § 1351(2). As a precondition to the  
9 implementation of a DSIC, each utility must file a petition with the Commission, which  
10 includes a Long Term Infrastructure Improvement Plan ("LTIIP") that is consistent with  
11 the provisions of Section 1352 of the statute. See 66 Pa. C.S. § 1352(a).

12  
13 On December 12, 2013, UGI-PNG filed a *Petition for Approval of a Distribution System*  
14 *Improvement Charge* ("DSIC Petition"), as well as a *Petition for Approval of a Long-*  
15 *Term Infrastructure Improvement Plan*, at Docket No. P-2013-2397056. UGI-PNG's  
16 DSIC Petition included all of the components required by Act 11 and the Commission's  
17 Final Implementation Order. By Order entered September 11, 2014, the Commission  
18 approved UGI-PNG's proposed LTIIP and DSIC, subject to refund. UGI-PNG was able  
19 to reach a settlement with the other parties in the proceeding, and the Commission  
20 approved the settlement in an Order entered July 8, 2015.

21  
22 In addition, on February 29, 2016, UGI-PNG filed a *Petition for Approval of a*  
23 *Modification to its Long Term Infrastructure Improvement Plan* ("Modified LTIIP"),

1 which has been docketed at P-2013-2397056. In the Modified LTIP, UGI-PNG  
2 identified increased DSIC-eligible investment that triggered the Commission's  
3 requirements at 52 Pa. Code § 121.5(a) because it exceeded 20% of the cost of the  
4 original plan. The increased investment relates to three categories of previously  
5 identified projects: system reliability improvements, service replacements, and mandated  
6 relocations of utility facilities. No action has been taken by the Commission on the  
7 Modified LTIP at the time this Petition was filed.

8 **Q. Please describe Exhibit WJM-1 to the Petition.**

9 A. Exhibit WJM-1 is a copy of the quarterly DSIC update filed by UGI-PNG on March 21,  
10 2016. Pursuant to the Commission's September 11, 2014 Order, on September 18, 2014,  
11 UGI-PNG filed Supplement No. 33 to UGI Penn Natural Gas, Inc. Tariff Gas – Pa.  
12 P.U.C. No. 8 implementing the DSIC for bills rendered on or after October 1, 2014.  
13 UGI-PNG has filed quarterly updates to its DSIC rate since September 2014, including a  
14 filing made on March 21, 2016. As reflected in Exhibit WJM-1, the Company's DSIC is  
15 currently at 5.00%, because the calculation has already exceeded the DSIC cap.

16 **Q. Is there a statutory limitation on the amount that may be recovered through the**  
17 **DSIC?**

18 A. Yes. Pursuant to 66 Pa. C.S. § 1358(a)(1), the DSIC may not exceed 5% of billed  
19 distribution revenues, and is reset to zero upon the effective date of new base rates which  
20 reflect the investment in DSIC-eligible property or if the Company overearns in any  
21 quarter. However, the Commission may grant a waiver of the 5% DSIC cap in order to  
22 “ensure and maintain adequate, efficient, safe, reliable and reasonable service.” 66 Pa.  
23 C.S. § 1358(a)(1).

1 **Q. Is the 5% DSIC cap reflected in the Company's currently effective tariff?**

2 A. Yes.

3 **Q. What is identified as Exhibit WJM-2?**

4 A. Exhibit WJM-2 to this Petition is UGI-PNG's *pro forma* tariff reflecting the proposed  
5 increase to the DSIC cap. The only modification from the currently effective DSIC tariff  
6 is the increase to the DSIC cap in the customer protections portion of the tariff language.  
7 All other elements of the tariff approved by the Commission in Docket No. P-2013-  
8 2397056 remain unchanged.

9 **Q. How is the increased DSIC cap shown in the Company's tariff?**

10 A. The revision to the *pro forma* tariff proposed in this Petition is reflected in the DSIC rider  
11 (Rider G) on page 35(b).

12 **Q. Why is UGI-PNG seeking an increase to the 5.0% DSIC cap?**

13 A. The Company is seeking to increase the DSIC cap in order to continue providing safe and  
14 reliable service to its customers through its aggressive accelerated repair and replacement  
15 program. This accelerated replacement program will allow UGI-PNG to meet its service  
16 obligations required by 66 Pa. C.S. § 1501. Increasing the DSIC cap is the best way to  
17 ensure the Company's financial stability so that it can continue addressing system repair  
18 and replacement, as opposed to undertaking a full base rate proceeding. As I will describe  
19 in greater detail in my testimony, increasing the DSIC cap will have a minimal impact on  
20 customer bills, will further the legislative and regulatory goals identified in Act 11 and by  
21 the Commission, will reduce administrative costs and burdens, and will continue to allow  
22 UGI-PNG to invest almost \$25 million per year in necessary infrastructure repair and  
23 replacement.

1 **Q. Are there any other utilities in Pennsylvania that have a DSIC cap above the 5% level**  
2 **established in 66 Pa. C.S. § 1358(a)?**

3 A. Many Pennsylvania water utilities have been granted DSICs with caps above 5.0% upon  
4 application to the Commission. In addition, Philadelphia Gas Works recently was allowed  
5 to increase its cap to 7.5% in an Order issued on January 28, 2016, at Docket No. P-2015-  
6 2501500.

7 **Q. Please describe Exhibit WJM-3.**

8 A. Exhibit WJM-3 is a schedule I prepared to show the projected quarterly DSIC filings for  
9 UGI-PNG, and how the granting of this Petition will impact the Company's use of the  
10 DSIC. UGI-PNG has already exceeded the current DSIC cap for the quarter beginning  
11 April 1, 2016. Without any increase, the DSIC will fail to recover more than \$15 million  
12 between April 1, 2016 and the end of the current LTIP period, which will be reflected in  
13 the DSIC in the quarter beginning January 1, 2019. In 2016, alone, without an increase in  
14 the DSIC cap, UGI-PNG will forego almost \$2 million worth of DSIC related revenue.

15 **Q. How did the Company determine the investment to be reflected in WJM-3?**

16 A. For 2016, we included the projects that have been included in this year's AAOP. The  
17 AAOP, which was filed on February 29, 2016, includes a list of projects and anticipated  
18 investment for the next LTIP year. I have included the 2016 AAOP as Exhibit WJM-4  
19 to this testimony. For the remaining two years of quarterly updates that are reflected in  
20 WJM-3, we used the projected investment that was included in the Modified LTIP, and  
21 divided that amount evenly across the calendar year. I would note that using the  
22 Company's original LTIP projections for 2017 and 2018 would not alter my conclusion  
23 that an increase to the DSIC cap is necessary.

1 **Q. Could you describe briefly the investment in DSIC-eligible infrastructure that the**  
2 **Company is projecting?**

3 A. As described in the Modified LTIP, UGI-PNG is replacing a wide variety of  
4 infrastructure, including gas and transmission mains, valves, fittings, couplings, service  
5 lines, meter sets, regulator stations, city gates, as well as undertaking comprehensive  
6 reliability projects and addressing mandatory relocations on Pennsylvania Department of  
7 Transportation projects. The accelerated investment over the five year period covered by  
8 the LTIP is as follows:

Year	Investment (in millions)
2014	\$26.1 actual spend
2015	\$27.1 actual spend
2016	\$35.9 projected spend
2017	\$24.8 projected spend
2018	\$24.8 projected spend

9

10 **Q. How does WJM-3 support your contention that the 5% DSIC cap is insufficient to**  
11 **recover the pre-tax return and depreciation on projected DSIC-eligible plant**  
12 **additions?**

13 A. Exhibit WJM-3 shows a number of different metrics that are important in showing that the  
14 5% DSIC cap is insufficient. First, the exhibit reflects our anticipated DSIC calculation on  
15 a quarterly basis. The Company exceeded the DSIC cap in its March 21, 2016 filing,  
16 included with my testimony as WJM-1. As you can see, under our current investment  
17 UGI-PNG will not recover \$309,877 for the quarter starting April 1, 2016. The Company  
18 will also exceed a 10% DSIC cap well before the end of the current LTIP period. The  
19 second important metric that is displayed in this exhibit is the lost revenue associated with  
20 the unrecoverable dollars above the 5% DSIC cap. This is reflected on both a quarterly and

1 an accruing basis. Simply stated, increasing the DSIC cap to 10% would allow UGI-PNG  
2 to extend its use of the DSIC to at least October 1, 2017. Without an increase, by October  
3 1, 2017, UGI-PNG will have foregone more than \$7.5 million worth of DSIC revenue. It is  
4 likely that this type of monetary loss would require UGI-PNG to support its infrastructure  
5 investments through a base rate proceeding. Importantly, even with an increase to 10%,  
6 UGI-PNG will only be able to fully utilize a DSIC to recover all eligible DSIC investment  
7 for 18 months before it once again exceeds the DSIC cap.

8 **Q. How would increasing UGI-PNG's DSIC cap to 10% impact the Company's ability**  
9 **to implement a DSIC?**

10 A. Increasing the DSIC cap to 10% would allow recovery of the pretax return and  
11 depreciation on 18 months of DSIC-eligible plant, at current projections of DSIC-eligible  
12 plant additions and the current allowed return on equity. The calculation supporting this  
13 can be seen in Exhibit WJM-3.

14 **Q. What impact, if any, will this have on customers' bills?**

15 A. As shown in Exhibit WJM-3, the increase in the DSIC cap will have a small impact on  
16 individual customers compared to what the Company would be allowed to charge under  
17 its current tariff with a 5% cap. For each 1% increase in the DSIC cap, customers will see  
18 a \$0.48 increase in their monthly bill.

19 **Q. What is the difference in customer bills for a 5% DSIC cap versus a 10% DSIC cap?**

20 A. Once UGI-PNG reaches the full 10% DSIC cap, which our projections show is likely by  
21 October 1, 2017, the difference between a customer's monthly bill at the 5% cap and a  
22 monthly bill at the 10% cap is \$2.39 per month.

1 **Q. Do you believe that the proposed increase to the DSIC cap is in the best interest of**  
2 **UGI-PNG's customers?**

3 A. Yes. As explained in the Modified LTIP, UGI-PNG is undertaking substantial  
4 replacement of its pipeline system, as well as other significant investment in system  
5 reliability. This replacement is critical to the continued provision of safe and reliable  
6 service, as required by 66 Pa. C.S. § 1501. The DSIC is vital to support the Company's  
7 efforts to undertake this replacement program. The Company has been able to accelerate  
8 investment so dramatically because it is able to receive a return on the capital it is  
9 investing without regulatory lag. UGI-PNG has also been able to address other  
10 operational needs that ensure reliable service to its customers. The Company is currently  
11 investing approximately \$25 million per year in DSIC-eligible projects. This represents  
12 an 80% increase over the amount of investment in the baseline period of 2009 to 2011.  
13 The work being done to the system is ensuring that our customers receive safe and reliable  
14 service, both now and into the future, without the added expense and administrative  
15 burden associated with frequent base rate proceedings. The costs associated with  
16 compiling and prosecuting a full rate case – costs which are passed through to customers –  
17 can be significant. Because the impact on customers' bills is small, as I explained  
18 previously, the tremendous benefits associated with improved safety and reliability that  
19 will be accomplished as a result of the accelerated investment in DSIC-eligible plant is  
20 clearly in the public interest.

21 **Q. Does the proposed increase in the cap impact consumer protections?**

22 A. No. The DSIC tariff continues to provide sufficient customer safeguards in its structure.  
23 In addition to still having a ceiling on recovery of capital, which must be approved as just



1 and reasonable by the Commission as part of this Petition, the tariff also continues to  
2 include the following safeguards: (1) annual reconciliations performed by the Company  
3 and reviewed by the Commission, (2) audits conducted by the Commission, (3) customer  
4 notice of any changes in the DSIC, and (4) a reset of the DSIC to zero if the Company's  
5 return in any quarter exceeds the return used to calculate the DSIC. The DSIC continues  
6 to balance consumer protections with the need to ensure that those same consumers  
7 receive safe and reliable service.

8 **Q. Why have you requested that the increased DSIC cap become effective July 1, 2016,**  
9 **subject to refund?**

10 A. The Company has requested that the Commission allow it to increase its DSIC cap  
11 immediately, subject to refund, because UGI-PNG's DSIC will exceed 5% of billed  
12 distribution revenues as of April 1, 2016. The Company will forego approximately  
13 \$300,000 of DSIC-eligible revenue in the April 1 quarter, alone. Making the increase  
14 subject to refund ensures that the Commission and other parties will have a full  
15 opportunity to assess the justness and reasonableness of the Company's proposal, while  
16 allowing UGI-PNG to recover the full investment associated with DSIC eligible  
17 infrastructure replacement. The approach proposed by UGI-PNG is consistent with past  
18 Commission action in proceedings that involve charges subject to annual reconciliation.  
19 For instance, the Commission allowed many utilities to implement their DSIC  
20 mechanisms subject to refund while the case was assigned to the Office of Administrative  
21 Law Judge for disposition. UGI-PNG believes that similar treatment is also appropriate in  
22 this context.

1 **Q. What impact will an effective date of July 1, 2016 have on customers' bills during the**  
2 **quarter from July 1 through August 31?**

3 A. The DSIC charge would be approximately \$0.93 higher per month per customer if UGI-  
4 PNG were allowed to exceed the 5% DSIC cap as of July 1. Therefore, the total  
5 difference for that quarter, on a per customer basis, is likely to be less than \$3.00 total.

6 **Q. Does that conclude your direct testimony?**

7 A. Yes it does.

**WJM-1**



UGI Utilities, Inc.  
2525 N. 12<sup>th</sup> Street  
Suite 360  
PO Box 12677  
Reading, PA 19612-2677

610-796-3400

Paul J. Szykman  
Vice President - Rates & Government Relations  
Vice President & General Manager - Electric Utilities

March 21, 2016

**VIA FEDERAL EXPRESS**

Ms. Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street, 2nd Floor North  
P.O. Box 3265  
Harrisburg, PA 17105-3265

**Re: UGI Penn Natural Gas, Inc.; Supplement No. 56 to PNG Gas – Pa. P.U.C. No. 8;  
Docket No. M-2016-\_\_\_\_\_;**

**April 1, 2016 Quarterly DSIC Filing**

Dear Secretary Chiavetta:

Enclosed for filing on behalf of UGI Penn Natural Gas, Inc. is its April 1, 2016, quarterly Distribution System Improvement Charge (“DSIC”) rate filing, consisting of the enclosed tariff Supplement No. 56 and supporting schedules. Supplement No. 56 provides for a quarterly DSIC rate of 5.00% effective for customer bills rendered on and after April 1, 2016.

Copies of this filing have been provided per the attached Certificate of Service. Should you have any questions related to this filing, please contact Stephen Anzaldo, Director, Rates & Regulatory Planning, via e-mail at [sanzaldo@ugi.com](mailto:sanzaldo@ugi.com) or via phone at (610) 796-3528.

Respectfully yours,

Paul J. Szykman

Enclosures: Supplement No. 56 to PNG Gas – Pa. P.U.C. No. 8  
Supporting Schedules

Cc: Certificate of Service

**CERTIFICATE OF SERVICE**

**UGI Penn Natural Gas, Inc.**

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

**VIA FIRST-CLASS MAIL**

Tanya J. McCloskey, Acting Consumer Advocate  
Erin L. Gannon  
Brandon J. Pierce  
Office of Consumer Advocate  
555 Walnut Street  
Forum Place, 5th Floor  
Harrisburg, PA 17101-1923

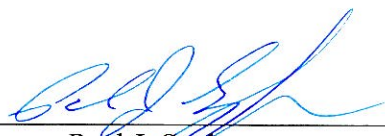
John R. Evans, Small Business Advocate  
Steven C. Gray  
Office of Small Business Advocate  
Commerce Building  
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Harrisburg, PA 17101

Johnnie E. Simms, Director  
Bureau of Investigation & Enforcement  
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Paul Diskin, Director  
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Harrisburg, PA 17105-3265

Dennis Hosler, Director  
Lori Burger, Manager  
Eastern Region: Harrisburg & Philadelphia  
Brian Shuey, Supervisor Harrisburg  
Bureau of Audits  
Commonwealth Keystone Building  
400 North Street  
3<sup>rd</sup> Floor, F East  
P. O. Box 3265  
Harrisburg, PA 17105-3265

Date: March 21, 2016

  
\_\_\_\_\_  
Paul J. Szykman

**UGI PENN NATURAL GAS, INC.**  
**GAS TARIFF**  
**INCLUDING THE GAS SERVICE TARIFF**  
**AND**  
**THE CHOICE SUPPLIER TARIFF**

Rates and Rules  
Governing the  
Furnishing of  
Gas Service and Choice Aggregation Service  
in the  
Territory Described Herein

Issued: March 21, 2016

Effective for bills rendered on and  
after April 1, 2016, in accordance  
with the Pennsylvania Public  
Utility Commission's Order entered  
September 11, 2014, at Docket No.  
P-2013-2397056.

Issued By:

Paul J. Szykman  
Vice President - Rates and Government Relations  
Vice President and General Manager - Electric Utilities  
2525 N. 12<sup>th</sup> Street, Suite 360  
Post Office Box 12677  
Reading, PA 19612-2677

<http://www.ugi.com/png>

**NOTICE**

This tariff makes increases to existing rates. (See Page 2.)

LIST OF CHANGES MADE BY THIS SUPPLEMENT  
(Page Numbers Refer to Official Tariff)

Rider G, Distribution System Improvement Charge, Page 35(b)

- The System Improvement Charge is increased.

RULES AND REGULATIONS

**14.C Rider G - DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (DSIC)**

In addition to the net charges provided for in this Tariff, a charge of 5.00% will apply (I)  
consistent with the Commission Order dated September 11, 2014, at Docket No. P-2013-  
2397056, approving the DSIC.

14.C.1 Purpose. To recover the reasonable and prudent costs incurred to repair, improve,  
or replace eligible property which is completed and placed in service and recorded in the  
individual accounts, as noted below, between base rate cases and to provide the Company  
with the resources to accelerate the replacement of aging infrastructure, to comply with  
evolving regulatory requirements and to develop and implement solutions to regional  
supply problems.

The costs of extending facilities to serve new customers are not recoverable through the  
DSIC.

14.C.2 Eligible Property.

The DSIC-eligible property will consist of the following:

- Piping, Couplings, Valves, Excess Flow Valves, Risers - Distribution &  
Transmission. (374, 376, 365, 367)
- Measuring & Regulator Stations - Distribution & Transmission (375, 378, 379,  
366, 369, 370)
- Gas Service Lines and Insulated and Non-Insulated Fittings (378, 380)
- Meters, Meter Bars, Meter Installations (381, 382)
- House Regulators & Installations (383, 384)
- Industrial & Farm Tap Measuring & Regulator Station Equipment (385, 386)
- Miscellaneous Equipment and Material- Distribution & Transmission (387, 371)
- Equipment - Electronic Systems & Software (391)
- Vehicles, Power Equipment, Tools, Shop & Garage Equipment (392, 394, 396)
- Unreimbursed costs related to highway relocation projects where a natural gas  
distribution company or city natural gas distribution operation must relocate  
its facilities.
- Gathering lines (332)
- Storage lines (353)
- Other related capitalized costs.

14.C.3 Effective Date. The DSIC will become effective for bills rendered on and after  
October 1, 2014.

14.C.4 Computation of the DSIC. The initial DSIC, effective for bills rendered on and  
after October 1, 2014, shall be calculated to recover the fixed costs of eligible plant  
additions that have not previously been reflected in the rates or rate base and will have  
been placed in service between June 1, 2014 and August 31, 2014. Thereafter, the DSIC  
will be updated on a quarterly basis to reflect eligible plant additions placed in  
service during the three-month periods ending one month prior to the effective date of  
each DSIC update.

(I) Indicates Increase

Issued: March 21, 2016

Effective for Bills Rendered on and after  
April 1, 2016



UGI Penn Natural Gas, Inc.  
DSIC Computation  
DSIC Quarterly Update  
Effective April 1, 2016

$$\text{DSIC} = \frac{(\text{DSI} \times \text{PTRR}) + \text{Dep} + e}{\text{PQR}}$$

<u>Line</u>		<u>Annual</u>	<u>Quarterly</u>	<u>Source</u>
1	Distribution System Improvement Costs		\$ 42,131,075	Page 2
2	Less Accumulated Depreciation		\$ (856,715)	Page 2
3	DSI		\$ 41,274,361	Ln 1 + Ln 2
4	PTRR	11.97%		Page 3
5	Quarterly Pretax Rate of Return		2.99%	Ln 4 / 4
6	DSI x PTRR		\$ 1,235,608	Ln 3 * Ln 5
7	Annual Depreciation Expense	\$ 1,035,100		Page 2
8	Dep		\$ 258,775	Ln 7 / 4
9	(DSI x PTRR) + Dep		\$ 1,494,383	Ln 6 + Ln 8
10	Over/(Under) Collection		\$ (418,253)	
11	Audit Adjustment		\$ -	
12	Interest Refundable		\$ -	
13	Prior Period "E" Factor Residual		\$ -	
14	Misc. Adjustments Refund/(Recoup)		\$ -	
15	Net "E" Factor Amount		\$ -	
16	e		\$ (418,253)	Sum Lines 10 - 15
17	(DSI x PTRR)+Dep+e		\$ 1,912,635	Ln 9 + - Ln 16
18	PQR		\$ 32,055,164	
19	DSIC		5.97%	Ln 17 / Ln 18
20	<b>DSIC Effective April 1, 2016</b>		<b>5.00%</b> 1/	

1/ The DSIC Rate is capped at 5.00% per Section 14.C.8.1 of Tariff PNG Gas - Pa. P.U.C. No. 8

UGI Penn Natural Gas, Inc.  
 Depreciation on DSIC Eligible Property  
 DSIC Quarterly Update  
 Effective April 1, 2016

April 1, 2016 Quarterly DSIC  
 Page 2 of 4

**Annual Depreciation**

Description	Depreciation Rate 1/	Beginning Balance 2/ November 30, 2015	Additions			Total	Annual Depreciation
			Actual Dec-15	Actual Jan-16	Actual Feb-16		
Mains - Plastic	2.4%	\$ 13,657,848	\$ 1,391,005	\$ 417,973	\$ 40,232	\$ 15,507,058	\$ 364,416
Mains - Other	1.7%	\$ 9,225,894	\$ 241,854	\$ 23,480	\$ 1,011,868	\$ 10,503,096	\$ 177,502
Measuring & Regulating Equipment - General	3.0%	\$ 3,089,679	\$ 10,556	\$ 50,888	\$ 12,822	\$ 3,163,945	\$ 94,286
Measuring & Regulating Equipment - City Gate	3.4%	\$ 741,277	\$ 86,293	\$ 3,496	\$ 676	\$ 831,742	\$ 28,612
Services - Plastic	3.1%	\$ 8,735,558	\$ 1,095,176	\$ 538,547	\$ 481,645	\$ 10,850,926	\$ 337,464
Services - Other	1.9%	\$ 355,227	\$ 20,961	\$ 7,543	\$ 26,367	\$ 410,098	\$ 7,587
Meters	3.1%	\$ 1,700	\$ 746	\$ 601	\$ 714,285	\$ 717,332	\$ 22,166
House Regulators	2.3%	\$ 1,120	\$ 15,050	\$ 29,239	\$ 3,938	\$ 49,347	\$ 1,145
House Regulator Installations	1.8%	\$ 27,696	\$ -	\$ -	\$ -	\$ 27,696	\$ 499
Industrial Measuring & Regulating Equipment	2.0%	\$ 69,835	\$ -	\$ -	\$ -	\$ 69,835	\$ 1,425
Tools, Shop & Garage Equipment	7.6%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
System Development Costs	6.7%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Storage & Gathering Lines	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
		\$ 35,905,834	\$ 2,861,641	\$ 1,071,767	\$ 2,291,833	\$ 42,131,075	\$ 1,035,100

**Accumulated Depreciation 3/**

Description	Depreciation Rate 1/	Beginning Balance 2/ November 30, 2015	Additions			Total
			Actual Dec-15	Actual Jan-16	Actual Feb-16	
Mains - Plastic	2.4%	\$ 80,240	\$ 8,172	\$ 1,637	\$ 79	\$ 90,128
Mains - Other	1.7%	\$ 38,979	\$ 1,022	\$ 66	\$ 1,425	\$ 41,492
Measuring & Regulating Equipment - General	3.0%	\$ 23,018	\$ 79	\$ 253	\$ 32	\$ 23,382
Measuring & Regulating Equipment - City Gate	3.4%	\$ 6,375	\$ 742	\$ 20	\$ 2	\$ 7,139
Services - Plastic	3.1%	\$ 67,919	\$ 8,515	\$ 2,791	\$ 1,248	\$ 80,473
Services - Other	1.9%	\$ 1,643	\$ 97	\$ 23	\$ 41	\$ 1,804
Meters	3.1%	\$ 13	\$ 6	\$ 3	\$ 1,839	\$ 1,861
House Regulators	2.3%	\$ 6	\$ 87	\$ 113	\$ 8	\$ 214
House Regulator Installations	1.8%	\$ 125	\$ -	\$ -	\$ -	\$ 125
Industrial Measuring & Regulating Equipment	2.0%	\$ 356	\$ -	\$ -	\$ -	\$ 356
Tools, Shop & Garage Equipment	7.6%	\$ -	\$ -	\$ -	\$ -	\$ -
System Development Costs	6.7%	\$ -	\$ -	\$ -	\$ -	\$ -
Storage & Gathering Lines	-	\$ -	\$ -	\$ -	\$ -	\$ -
Other	-	\$ -	\$ -	\$ -	\$ -	\$ -
Accumulated Depreciation		\$ 218,675	\$ 18,720	\$ 4,906	\$ 4,674	\$ 246,975

January 1, 2016 Quarterly DSIC Filing Accumulated Depreciation \$ 609,740 4/

Total Accumulated Depreciation \$ 856,715

1/ See Docket No. R-2008-2079660.

2/ Reflects eligible plant placed into service between June 1, 2014 through November 30, 2015.

3/ The current quarter's calculated accumulated depreciation is equal to 3 months of depreciation of the beginning balance property, 3 months of depreciation of property placed into service in December, 2 months of depreciation of property placed into service in January, and 1 month of depreciation of property placed into service in February. Consistent with the Commission's Order at Docket No. P-2013-2397056, the current quarter's calculated accumulated depreciation is added to the prior quarters' calculated accumulated depreciation to determine the total accumulated depreciation amount.

4/ Reflects removal of \$146,669 of costs associated with the Smallworld Geographic Information System ("GIS") software included in the DSIC in September 2014, consistent with the Joint Petition for Settlement of All Issues approved by the Commission at Docket No. P-2013-2397056.

UGI Penn Natural Gas, Inc.  
 Weighted Cost of Capital  
 DSIC Quarterly Update  
 Effective April 1, 2016

	Capital Structure	Cost Rate	Weighted Average Cost Rates	Tax Multiplier	Pre-Tax Rate of Return
Long Term Debt 1/	42.18%	4.96%	2.09%	-	2.09%
Common Equity	57.82%	10.00%	5.78%	1.7092	9.88%
	100.00%				11.97%

Note: In compliance with the Commission's September 11, 2014 Order, at Docket No. P-2013-2397056, the cost rate of debt reflects the Company's actual cost of long term debt as of March 1, 2016. The equity cost rate is from the Bureau of Technical Utility Services' Report on the Quarterly Earnings of Jurisdictional Utilities for the period ended September 30, 2015 (3rd Quarter Report), at Docket No. M-2015-2505842. The tax multiplier is calculated as follows:  $1 / ((1 - \text{PA Tax Rate}) \times (1 - \text{Fed. Tax Rate}))$  where the PA Tax Rate is 9.99% and the Fed. Tax Rate is 35.00%.

1/ Refer to page 4 of 4 for details.

UGI Penn Natural Gas, Inc.  
 Capital Structure and Debt Components  
 DSIC Quarterly Update  
 Effective April 1, 2016

	Balance as of 3/01/16	% of Total Capitalization	Cost Rate	Weighted Average Cost Rates	Tax Multiplier	Pre-tax Return
Debt	688,372,000	42.18%	4.96%	2.09%		2.09%
Common Equity	943,613,043	57.82%	10.00%	5.78%	1.7092	9.88%
Total Capitalization	\$ 1,631,985,043	100.00%		7.87%		11.97%

	Effective Cost Rate	Balance as of 3/01/16	Cost of Debt as of 3/01/16
Long Term Note, Tranche 1	5.36%	-	-
Long Term Note, Tranche 2	7.43%	-	-
Long Term Note, Tranche 3	6.19%	-	-
Long Term Note, Tranche 4	5.89%	20,000,000	1,178,000
Long Term Note, Tranche 5	7.30%	20,000,000	1,460,000
Long Term Note, Tranche 6	5.73%	20,000,000	1,146,000
Long Term Note, Tranche 7	6.54%	20,000,000	1,308,000
Long Term Note, Tranche 8	6.18%	20,000,000	1,236,000
Long Term Note, Tranche 9	6.22%	175,000,000	10,885,000
Long Term Note, Tranche 10	6.26%	100,000,000	6,260,000
Long Term Note, Tranche 11	5.06%	175,000,000	8,855,000
Revolver Facility*	1.31%	138,372,000	1,813,019
		\$ 688,372,000	\$ 34,141,019

Weighted Cost of L/T Debt

4.96%

**WJM-2**

**UGI PENN NATURAL GAS, INC.**  
**GAS TARIFF**  
**INCLUDING THE GAS SERVICE TARIFF**  
**AND**  
**THE CHOICE SUPPLIER TARIFF**

Rates and Rules  
Governing the  
Furnishing of  
Gas Service and Choice Aggregation Service  
in the  
Territory Described Herein

Issued:

Issued By:

Paul J. Szykman  
Vice President - Rates and Government Relations  
Vice President and General Manager - Electric Utilities  
2525 N. 12<sup>th</sup> Street, Suite 360  
Post Office Box 12677  
Reading, PA 19612-2677

<http://www.ugi.com/png>

**NOTICE**

This tariff makes changes to existing rates. (See Page 2.)

**LIST OF CHANGES MADE BY THIS SUPPLEMENT**  
(Page Numbers Refer to Official Tariff)

Rider G, Distribution System Improvement Charge, Page 35(d)

- The DSIC CAP is changed to 10%.

RULES AND REGULATIONS**14.C Rider G - DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (DSIC) (cont'd)** (C)

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

Revenues will be determined as one-fourth (1/4) of projected annual revenues as determined in accordance with 14.C.8.5.

14.C.7 Quarterly Updates. Supporting data for each quarterly update will be filed with the Commission and served upon the Commission's Bureau of Audits, Bureau of Investigation and Enforcement, the Office of Consumer Advocate, and the Office of Small Business Advocate at least ten (10) days prior to the effective date of the update.

14.C.8 Customer Safeguards.

1. Cap: The DSIC is capped at 10.0% of the amount billed to customers for distribution service (including all applicable clauses and riders) as determined on an annualized basis. (C)
2. Audit/Reconciliation: The DSIC is subject to audit at intervals determined by the Commission. Any cost determined by the Commission not to comply with any provision of 66 Pa C.S. § 1350, et seq., shall be credited to customer accounts. The DSIC is subject to annual reconciliation based on a reconciliation period consisting of the twelve months ending December 31 of each year. The revenue received under the DSIC for the reconciliation period will be compared to the Company's eligible costs for that period. The difference between revenue and costs will be recouped or refunded, as appropriate, in accordance with Section 1307(e), over a one-year period commencing on April 1 of each year. If DSIC revenues exceed DSIC-eligible costs, such over-collections will be refunded with interest. Interest on over-collections and credits will be calculated at the residential mortgage lending specified by the Secretary of Banking in accordance with the Loan Interest and Protection Law (41 P.S. § 101, et seq.) and will be refunded in the same manner as an over-collection.
3. New Base Rates: The DSIC will be reset to zero upon application of new base rates to customer billings that provide for prospective recovery of the annual costs that had previously been recovered under the DSIC. Thereafter, only the fixed costs of new eligible plant additions that have not previously been reflected in the Company's rates or rate base will be reflected in the quarterly updates of the DSIC.
4. Customer Notice: An explanatory bill insert shall be included with the first billing following the effective date of the initial Distribution System Improvement Charge. Customers shall be notified of subsequent changes in the DSIC by including appropriate information on the first bill they receive following any change.
5. All Customer Classes: 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.



6. Earnings Reports: The DSIC will also be reset to zero, if, in any quarter, data filed with the Commission in the Company's then most recent Annual or Quarterly Earnings reports show that the Company would earn a rate of return that would exceed the allowable rate of return used to calculate its fixed costs under the DSIC as described in the pre-tax return section.

(C) Indicates Change

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Issued:

Effective for Bills Rendered on and after

**WJM-3**

**UGI PENN NATURAL GAS, INC.**  
**Current /Projected DSIC Surcharges & Related Impacts**  
**April 1, 2016 -- January 1, 2019**

EXHIBIT WJM-3

	Effective Apr-16	Effective Jul-16	Effective Oct-16	Effective Jan-17	Effective Apr-17	Effective Jul-17	Effective Oct-17	Effective Jan-18	Effective Apr-18	Effective Jul-18	Effective Oct-18	Effective Jan-19
Annual Budget	42,131,075	35,907,072	35,907,072	24,800,000	24,800,000	24,800,000	24,800,000	24,800,000	24,800,000	24,800,000	24,800,000	24,800,000
Quarterly Budget	10,532,769	8,976,768	8,976,768	6,200,000	6,200,000	6,200,000	6,200,000	6,200,000	6,200,000	6,200,000	6,200,000	6,200,000
Quarterly Revenue Requirement	650,300	314,187	314,187	217,000	217,000	217,000	217,000	217,000	217,000	217,000	217,000	217,000
DSIC Revenue Requirement	<u>1,912,635</u>	<u>2,226,822</u>	<u>2,541,009</u>	<u>2,758,009</u>	<u>2,975,009</u>	<u>3,192,009</u>	<u>3,409,009</u>	<u>3,626,009</u>	<u>3,843,009</u>	<u>4,060,009</u>	<u>4,277,009</u>	<u>4,494,009</u>
Quarterly Revenue	32,055,164	32,055,164	32,055,164	32,055,164	32,055,164	32,055,164	32,055,164	32,055,164	32,055,164	32,055,164	32,055,164	32,055,164
DSIC % (Cap Proposed at 10%)	5.97%	6.95%	7.93%	8.60%	9.28%	9.96%	10.63%	11.31%	11.99%	12.67%	13.34%	14.02%
Average RH Non-PGC Monthly Bill	\$ 47.75	\$ 47.75	\$ 47.75	\$ 47.75	\$ 47.75	\$ 47.75	\$ 47.75	\$ 47.75	\$ 47.75	\$ 47.75	\$ 47.75	\$ 47.75
Average DSIC Impact per Monthly RH Bill Based on 10% Cap	\$ 2.85	\$ 3.32	\$ 3.79	\$ 4.11	\$ 4.43	\$ 4.75	\$ 4.78	\$ 4.78	\$ 4.78	\$ 4.78	\$ 4.78	\$ 4.78
Foregone DSIC Recovery (Quarter) 1/,2/	\$ 309,877	\$ 624,064	\$ 938,251	\$ 1,155,251	\$ 1,372,251	\$ 1,589,251	\$ 1,602,758	\$ 1,602,758	\$ 1,602,758	\$ 1,602,758	\$ 1,602,758	\$ 1,602,758
Foregone DSIC Recovery (Cumulative) 1/,2/	\$ 309,877	\$ 933,940	\$ 1,872,191	\$ 3,027,442	\$ 4,399,692	\$ 5,988,943	\$ 7,591,701	\$ 9,194,459	\$ 10,797,217	\$ 12,399,975	\$ 14,002,734	\$ 15,605,492
Percent Over 5% Cap	0.97%	1.95%	2.93%	3.60%	4.28%	4.96%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
RH Non-PGC Bill impact for > 5% Cap	\$ 0.46	\$ 0.93	\$ 1.40	\$ 1.72	\$ 2.04	\$ 2.37	\$ 2.39	\$ 2.39	\$ 2.39	\$ 2.39	\$ 2.39	\$ 2.39

1/ Foregone DSIC Revenue reflects DSIC eligible spend above the 5% DSIC Cap which will not be recovered through the DSIC unless this Petition is approved.

2/ Foregone Revenue is capped at 10% of billed distribution revenues, consistent with the Company's Proposal. The highlighted cells reflect those quarters that are limited by the 10% DSIC Cap.

**WJM-4**



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Jessica R. Rogers

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202-661-6964 Direct  
717-731-1985 Direct Fax  
File #: 153583

February 29, 2016

***VIA ELECTRONIC FILING***

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street, 2nd Floor North  
P.O. Box 3265  
Harrisburg, PA 17105-3265

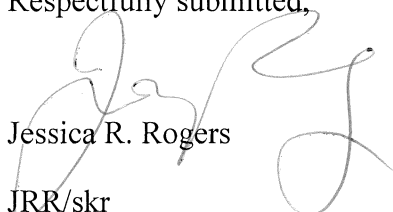
**Re: UGI Penn Natural Gas, Inc.  
Annual Asset Optimization Plan  
Docket No. M-2016-**

Dear Secretary Chiavetta:

Enclosed for filing on behalf of UGI Penn Natural Gas, Inc. is the Annual Asset Optimization Plan.

Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,



Jessica R. Rogers

JRR/skr  
Enclosures

cc: Certificate of Service

**CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

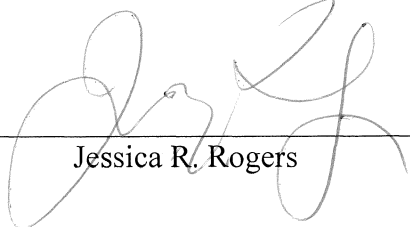
**VIA FIRST CLASS MAIL**

Erin L. Gannon  
Brandon J. Pierce  
Office of Consumer Advocate  
555 Walnut Street  
Forum Place, 5th Floor  
Harrisburg, PA 17101-1923

Richard A. Kanaskie  
Bureau of Investigation & Enforcement  
PO Box 3265  
Commonwealth Keystone Building  
400 North Street, 2nd Floor West  
Harrisburg, PA 17105-3265

Steven C. Gray  
Office of Small Business Advocate  
Commerce Building  
300 North Second Street, Suite 202  
Harrisburg, PA 17101

Date: February 29, 2016



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Jessica R. Rogers

UGI PENN NATURAL GAS, INC.

2015-2016  
Annual Asset Optimization Plan

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Docket No. M-2016-

**2/29/2016**

**UGI Penn Natural Gas, Inc.**  
**2015-2016 Annual Asset Optimization Plan**

UGI Penn Natural Gas, Inc. (“UGI-PNG” or the “Company”) hereby submits to the Pennsylvania Public Utility Commission (“Commission”) its 2015-2016 Annual Asset Optimization Plan (“2015-2016 AAOP”) in connection with the Company’s 2014-2018 Long-Term Infrastructure Improvement Plan approved by the Commission in its Order entered September 11, 2014, at Docket No. P-2013-2397056 (“LTIIIP” or “Plan”). This 2015-2016 AAOP provides a description of: (1) the eligible property repaired, improved and replaced in the Plan’s 12-month period, January 1, 2015 through December 31, 2015; and (2) the eligible property to be repaired, improved and replaced in the Plan’s upcoming 12-month period, January 1, 2016 through December 31, 2016. As discussed in more detail below, this 2015-2016 AAOP demonstrates that over the above-referenced timeframes, UGI-PNG and its affiliates UGI Central Penn Gas, Inc. (“UGI-CPG”)<sup>1</sup> and UGI Utilities, Inc.—Gas Division (“UGI-GD”)<sup>2</sup> (collectively, the “UGI Distribution Companies” or “Companies”) have exceeded their combined mileage replacement goals and have exceeded their Plans’ anticipated capital expenditures due to an emphasis on system reliability improvements and increased expenditures related to service replacements and mandated relocations of utility facilities.

Concurrent with this 2015-2016 AAOP, UGI-PNG is filing a petition for approval of a major modification to its LTIIIP pursuant to 66 Pa.C.S. § 1352 and 52 Pa. Code § 121.5(a).

**I. Background**

Act 11 of 2012 (“Act 11”) became effective on February 14, 2012 and, among other things, authorized the Commission to approve a distribution system improvement charge (“DSIC”) upon petition by a public utility to recover the utility’s reasonable and prudent costs incurred to repair, improve or replace certain eligible distribution property that is part of the utility’s distribution system. As a precondition to implementing a DSIC under Act 11, a utility is required to receive Commission approval of a LTIIIP that is consistent with the provisions of Section 1352 and the Commission’s implementing orders.

On August 2, 2012, the Commission entered its Final Implementation Order at Docket No. M-2012-2293611 (“Final Implementation Order”), which established procedures and guidelines implementing Act 11. The Final Implementation Order adopted the requirements established in Section 1352 of the Public Utility Code while providing additional standards that LTIIIPs must meet and guidance to utilities for meeting the Commission’s standards. In the Final Implementation Order, the Commission noted that a utility’s AAOP is intended to provide the Commission and the public an overall status report regarding a utility’s compliance and progress

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<sup>1</sup> UGI-CPG’s LTIIIP was approved in an Opinion and Order entered on September 11, 2014 at Docket No. P-2013-2398835

<sup>2</sup> UGI-GD’s LTIIIP was approved in an Opinion and Order entered on July 31, 2014 at Docket No. P-2013-2398833.



in making infrastructure improvements pursuant to its Commission-approved LTIP. The Commission further stated in the Final Implementation Order that it expects a utility's AAOP to identify a utility's near-term construction projects that will be funded by the DSIC, consistent with the LTIP.

On May 22, 2014, the Commission entered its Final Rulemaking Order at Docket No. L-2012-2317274 ("Final Rulemaking Order"), establishing procedures and criteria for the filing and subsequent periodic review of LTIPs. Section 121.6 of the Final Rulemaking Order included required elements of and procedures for filing AAOPs, providing, in pertinent part:

- A utility with an approved DSIC must file an AAOP with the Commission, for informational purposes, on an annual basis within 60 days of the end of each 12-month period of the utility's LTIP;
- A utility's AAOP must include: (1) a description that specifies all the eligible property repaired, improved and replaced in the prior 12-month period under the utility's LTIP and prior year's AAOP, and (2) a description of the eligible property to be repaired, improved and replaced in the upcoming 12-month period;
- An AAOP will be reviewed by the Commission only to determine whether the utility is in substantial compliance with the repairs, improvements and/or replacements of the specific eligible property in its approved LTIP, for the corresponding 12-month timeframes; and
- An AAOP will be deemed approved within 60 days of its submission to the Commission, absent any major modifications to the utility's LTIP, Commission rejection of the AAOP or Commission extension of the consideration period.

Pursuant to the provisions of Act 11 and the Final Implementation Order, UGI-PNG filed Petitions for approval of its LTIP and DSIC on December 12, 2013, which were approved by the Commission on September 11, 2014. UGI-PNG's initial DSIC subsequently took effect on October 1, 2014.

This 2015-2016 AAOP is the second annual update under UGI-PNG's LTIP, which addresses the required elements for the Plan's 12-month period from January 1, 2015 through December 31, 2015, and the Plan's upcoming 12-month period from January 1, 2016 through December 31, 2016. This second AAOP demonstrates, in accordance with the Final Rulemaking Order, that the Company's performance meets or exceeds the overall schedule of repairs, improvements or replacements of the specific eligible property in its approved Plan for the corresponding 12-month timeframes. UGI-PNG is also providing the Company's capital placed in service and mileage replaced during the first two years of its LTIP.

## **II. Description of Eligible Property Repaired, Improved and Replaced in the 12-Month Period: January 1, 2015 through December 31, 2015**

As described in the Companies' LTIPs, the UGI Distribution Companies estimated the replacement of approximately 62 miles of cast iron and bare steel mains across the UGI Distribution Companies' service territories in 2015. As stated in each of the Companies' 2014-2015 AAOPs, the 2015 replacement plan for UGI-PNG included replacement of approximately 14 miles of combined cast iron and bare steel mains; for UGI-CPG, the 2015 replacement plan included approximately 15 miles of combined cast iron and bare steel mains<sup>3</sup>; and for UGI-GD the 2015 replacement plan included approximately 33 miles of combined cast iron and bare steel mains. A specific list of planned DSIC-eligible main replacement projects was included as Appendix A to the UGI-PNG AAOP filed on February 27, 2015.

As stated in the LTIPs, the amount of the annual UGI Distribution Companies' 62 mile main replacement plan allocated to each UGI Distribution Company will vary as risks are annually re-evaluated and re-prioritized across all UGI Distribution Companies. An annual review is performed to identify the highest risk pipe segments and prioritize those replacements each year. Risks are also re-evaluated over the course of the year as new information becomes available. This approach is consistent with the UGI Distribution Companies' Transmission Integrity Management Program ("TIMP") and Distribution Integrity Management Program ("DIMP") filed in accordance with Subpart P of 49 CFR Part 192.

In total, the UGI Distribution Companies exceeded LTIP plans by replacing 67 miles of cast iron, bare steel and wrought iron mains in the calendar year ended December 31, 2015. UGI-PNG exceeded its individual main replacement goals by replacing 17.6 miles of cast iron, bare steel and wrought iron mains to comply with the Companies' re-evaluation and reprioritization of risk across all UGI Distribution Companies.

The tables below provide a summary of the mains replaced by all UGI Distribution Companies and the detail of mileage replaced at UGI-PNG.

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<sup>3</sup> UGI-CPG's 2015 replacement plan specifically included replacement of approximately 15 miles of cast iron and bare steel mains with anticipation that UGI-CPG will replace an average of 17 miles per year of combined cast iron and bare steel mains over the span of the LTIP.

**Table 1.**

<b>UGI Distribution Companies Main Replacement Quantities</b>			
	LTIIP 2015 Planned Cast Iron, Bare Steel & Wrought Iron Pipe Replacement Quantity (Miles)	Calendar Year 2015 Planned Cast Iron, Bare Steel & Wrought Iron Pipe Replacement Quantity (Miles)	Calendar Year 2015 Actual Cast Iron, Bare Steel & Wrought Iron Pipe Replacement Quantity (Miles)
UGI-CPG	17.0 <sup>4</sup>	15.0	19.4
UGI-GD	33.0	33.0	30.4
UGI-PNG	12.0	14.0	17.6
<b>Total UGI Companies</b>	<b>62.0<sup>5</sup></b>	<b>62.0</b>	<b>67.4</b>

**Table 2.**

<b>UGI-PNG Pipe Replacement Detail</b>	
Material	Mileage Replaced
Bare Steel & Wrought Iron	10.3
Cast Iron	7.3
<b>Total</b>	<b>17.6</b>

Attached hereto as **Appendix A** is a list of DSIC-eligible main replacement projects that were completed during 2015 at UGI-PNG.

DSIC-eligible capital placed into service at UGI-PNG in calendar year 2015 was \$27.1 million. The investment placed into service is reflected in Table 3, below. Table 4 below enumerates the capital spend by asset type. It should be noted that total LTIIP expenditures exceeded the amounts reported below, however only those projects closed and placed into service for DSIC calculation purposes are shown.

**Table 3.**

<b>UGI Companies DSIC-Eligible Capital Placed in Service Calendar 2015</b>			
	LTIIP 2015 Planned Capital <sup>6</sup> (\$Millions)	Calendar Year 2015 Planned Capital (\$Millions)	Calendar Year 2015 Capital Placed in Service (\$Millions) <sup>7</sup>
UGI-CPG	\$13.5	\$20.4	\$18.6
UGI-GD	\$51.2	\$52.1	\$62.5
UGI-PNG	\$22.9	\$24.8	\$27.1
<b>Total UGI Companies</b>	<b>\$87.6</b>	<b>\$97.3</b>	<b>\$108.20</b>

<sup>4</sup> See note 3 above.

<sup>5</sup> The total 62 miles takes into account UGI-CPG's replacement plan of an average of 17 miles per year of cast iron and bare steel over the span of the LTTIP.

<sup>6</sup> At the time of submitting its LTIIP Petition in December 2013, projected LTIIP annual expenditures and related project lists were provided based on the Company's fiscal year, October 1st through September 30th, due to the Company's use of its fiscal year for capital budgeting purposes.

<sup>7</sup> Actual LTIIP expenditures are shown based on the calendar year ended December 31, 2015 to be consistent with the Company's 2015 mileage replacement commitments as expressed on a calendar year basis.

**Table 4.**

<b>UGI-PNG DSIC-Eligible Capital Placed into Service Detail Calendar 2015</b>		
Budget Group	Budget Group Description	Calendar Year 2015 Capital Placed in Service
58M	Replacement-Services	7,562,697
45M	Replacement-Cast Iron	2,271,479
41M	Replacement-Leaks	7,706,719
43M	Replacement-Ahead of Paving	521,023
44M	Replacement-Other	1,135,743
51M	Maintenance-Meters	692,487
09O	M & R Station Equipment	2,566,492
12O	System Reliability Improvements	3,046,653
11O	Corrosion Control	989,090
01O	Misc-Plant Equipment	655,000
<u>Total</u>		<u>27,147,383</u>

**III. Description of Capital Placed in Service and Pipe Replacement Quantities in the Initial 2 Year Period of the 5 Year LTIP: January 1, 2014 – December 31, 2015**

Though not required to be provided in the AAOP, the Companies are providing the information in Table 5 to demonstrate cumulative capital placed in service and pipe replacement mileage for the first two years of the Plan.

**Table 5.**

<b>UGI Companies Cumulative Replacements Under LTIP</b>		
	Cumulative 2014 and 2015 Capital Placed in Service (\$Millions) <sup>8</sup>	Cumulative 2014 and 2015 Actual Cast Iron, Bare Steel & Wrought Iron Pipe Replacement Quantity (Miles)
UGI-CPG	\$27.0	32.4
UGI-GD	\$121.5	70.8
UGI-PNG	\$53.2	26.8
<u>Total UGI Companies</u>	<u>\$201.7</u>	<u>130.0</u>

**IV. Description of Eligible Property To Be Repaired, Improved and Replaced in the Upcoming 12-Month Period: January 1, 2016 – December 31, 2016**

In calendar year ending December 31, 2016, approximately 64 miles or more of cast iron, bare steel and wrought iron main are estimated to be replaced across all UGI Distribution Companies. For UGI-PNG, the 2016 replacement plan will include approximately 14 miles of

<sup>8</sup> The totals reflected in this table include all LTIP projects completed and placed in service between January 1, 2014 and December 31, 2015.

cast iron, bare steel and wrought iron mains. These estimates are subject to change based on the UGI Distribution Companies' process for the annual re-evaluation and re-prioritization of projects across all UGI Distribution Companies. The estimated DSIC-eligible capital spend at UGI-PNG in 2016 is \$35.9 million.

**Table 6.**

<b>UGI Companies Main Replacement Quantities</b>		
	LTIIP Plan Cast Iron, Bare Steel & Wrought Iron Pipe Replacement Quantity (Miles)	Calendar Year 2016 Cast Iron, Bare Steel & Wrought Iron Pipe Replacement Plan (Miles)
UGI-CPG	17	17
UGI-GD	33	33
UGI-PNG	12	14
<u>Total UGI Companies</u>	<u>62</u>	<u>64</u>

Attached hereto in **Appendix B** is a list of DSIC-eligible main replacement projects that are planned during 2016 at UGI-GD.

**Table 7.**

<b>UGI Companies DSIC Eligible Capital Planned Calendar 2016</b>		
	LTIIP 2016 Plan Capital (\$Millions)	Calendar Year 2016 Plan Capital (\$Millions) <sup>9</sup>
UGI-CPG	\$14.0	\$27.1
UGI-GD	\$51.2	\$92.9
UGI-PNG	\$22.9	\$35.9
<u>Total UGI Companies</u>	<u>\$88.1</u>	<u>\$155.9</u>

## **V. Major Modification**

As reported in the UGI-PNG 2015-2016 AAOP, UGI-PNG has exceeded the DSIC-eligible capital placed in service that was originally projected for the first two years of its LTIIP. UGI-PNG initially anticipated annual DSIC-eligible capital spending of \$22.9 million per year for each year of the LTIIP, which would have equated to \$45.8 million in actual capital spend for the first two years of the LTIIP. However, as indicated in Table 5, UGI-PNG has placed in service \$53.2 million of DSIC-eligible capital from January 1, 2014 to December 31, 2015. In addition, as shown in Table 7, UGI-PNG projects a significant increase above the \$22.9 million identified in the LTIIP for 2016.

<sup>9</sup> The UGI Distribution Companies budget for capital expenditures on a fiscal year basis. The Companies' 2016 fiscal year ends September 30, 2016. However, planned future capital expenditures are expected to keep pace with fiscal year 2016 budgeted expenditures, so the calendar year 2016 Plan capital is expected to match fiscal year capital planning.

UGI-PNG's actual and projected DSIC-eligible capital investment for 2014 through 2018 will increase the total estimated cost of the LTIP by more than 20%. Therefore, pursuant to 66 Pa.C.S. § 1352 and 52 Pa. Code § 121.5(a), UGI-PNG is concurrently filing a *Petition of UGI Penn Natural Gas Inc. for Approval of a Modification to its Long Term Infrastructure Improvement Plan* ("Petition").

As more fully described in the Petition, the projects driving UGI-PNG to exceed its LTIP investment projections are in three primary categories: (1) system reliability improvements; (2) service replacements; and (3) mandated relocations of utility facilities. A list of these projects is attached hereto as **Appendix C**. These project categories have little to no impact on the Company's achievement of its LTIP cast iron and bare steel mileage replacement commitments. However, as described more fully in the Petition, increased spending on these categories of projects is required to ensure system reliability for UGI-PNG's customers, to meet operational needs, and to comply with legislative and regulatory mandates.

Appendix A  
Cast Iron, Bare Steel, Wrought Iron  
Replacement Projects Placed in Service  
Calendar Year Ended December 31, 2015

PROJECT DESCRIPTION	CAST IRON (FT)	BARE STEEL / WROUGHT	TOTAL PIPE (BS, CI OR WI)	RETIRED PIPE SIZE	INSTALLED PIPE SIZE
Dorothy Street, 0	7,645	973	8,618	4,6,10	2,3,4
Grafius Street, 400	6,644	543	7,187	3	2
King Street, 300-800	725	4,312	5,037	6	1.25,2,4
7th Street, 000	0	4,443	4,443	4	1.25 & 2
River Street, 000	2,672	1,761	4,433	Various	Various
W Shawnee Avenue, 0	2,660	1,760	4,420	Various	1.25&2
Route 405, 1100	0	3,890	3,890	4	4
Riverside Drive, 1	0	3,650	3,650	Various	2
Spring Garden Avenue, 1600-2000	0	3,614	3,614	4	1.25&2
Market Street, 1100-1400	3,600	0	3,600	4	2
King Street, 0	1,399	1,987	3,386	3	2
Loomis Street, 0	0	2,748	2,748	6	6
S Washington Street, 0-100	0	2,712	2,712	10&12	4
Market Street, 450-900	2,460	220	2,680	4	2

Appendix A  
 Cast Iron, Bare Steel, Wrought Iron  
 Replacement Projects Placed in Service  
 Calendar Year Ended December 31, 2015

PROJECT DESCRIPTION	CAST IRON (FT)	BARE STEEL / WROUGHT	TOTAL PIPE (BS, CI OR WI)	RETIRED PIPE SIZE	INSTALLED PIPE SIZE
Texas Palmyra Highway, 900	0	2,200	2,200	4	8
Old Berwick Road, 1000-4000	0	2,007	2,007	Various	Various
Oakford Road, 1	0	1,872	1,872	3&4	Various
Park Avenue, 300-400	526	1,325	1,851	Various	4&6
Prescott Avenue, 200-500	1,506	293	1,799	2&4	1.25,2, &4
Memorial Avenue, 500	300	1,332	1,632	6	2
Montour Street, 0	0	1,600	1,600	various	6
Mary Street, 1	1,440	58	1,498	2&4	2&4
State Street, 200-400	0	1,455	1,455	6	4
N Sumner Avenue, 700-800	1,403	0	1,403	Various	Various
Old Berwick Road, 7200-7300	0	1,350	1,350	2	1.25&2
Luzerne Street, 700-900	1,260	0	1,260	4	2
Church Alley 3, 2	0	1,260	1,260	6	4
Harlem Avenue, 0-100	300	945	1,245	Various	Various
Mulberry Street, 400	1,060	0	1,060	4	2



Appendix A  
Cast Iron, Bare Steel, Wrought Iron  
Replacement Projects Placed in Service  
Calendar Year Ended December 31, 2015

PROJECT DESCRIPTION	CAST IRON (FT)	BARE STEEL / WROUGHT	TOTAL PIPE (BS, CI OR WI)	RETIRED PIPE SIZE	INSTALLED PIPE SIZE
Moon Valley Road, 149	0	1,047	1,047	1	1.25
Meadow Avenue, 0	0	988	988	4	2
1st Avenue, 700-900	850	0	850	4	2
Coughlin Street, 100-300	600	0	600	4	2
N 6th Street, 400	0	580	580	6	N/A
Fellows Avenue, 0	0	570	570	4&6	6
S Mercer Street, 400	0	565	565	2-Jan	2
Locust Street, 100-200	475	0	475	4	4
Pennsylvania Avenue, 300	0	460	460	3	4
Monroe Avenue, 1000	420	0	420	4	2
Euclid Avenue, 2400	0	350	350	4	2
Meyers Street, 0	0	347	347	4-Jan	2
Terrace Street, 500	0	325	325	Various	1.25
Terrace Street, 516	0	325	325	2	1.25

Appendix A  
 Cast Iron, Bare Steel, Wrought Iron  
 Replacement Projects Placed in Service  
 Calendar Year Ended December 31, 2015

PROJECT DESCRIPTION	CAST IRON (FT)	BARE STEEL / WROUGHT	TOTAL PIPE (BS, CI OR WI)	RETIRED PIPE SIZE	INSTALLED PIPE SIZE
Woodward Avenue, 3093	0	289	289	6	8
Hepburn Street, 508	281	0	281	3&4	N/A
Turbot Avenue, 0	0	182	182	2	2
Vine Street, 1500	165	0	165	Various	2
York Lane, 14	0	129	129	2	Various
Hollow Avenue, 0	0	32	32	6&10	8
Poplar Street, 79	0	23	23	6	6
Morse Avenue, 7	0	20	20	4	4

PROJECT DESCRIPTION	CAST IRON (FT)	BARE STEEL / WROUGHT IRON (FT)	TOTAL PIPE (BS, CI OR WI) ABANDONED (FT)	RETIRED PIPE SIZE (IN)	INSTALLED PIPE SIZE (IN)
W 3rd Street, 800-1500	18,900	3,120	22,020	Various	2,4,8
Mulberry Street, 1	6,100	0	6,100	4	2
Cedar Avenue, 2500-3200	0	3,967	3,967	Various	Various
Arch Street, 0	1,632	1,300	2,932	Various	Various
4th Street, 350-500	1,129	1,702	2,831	Various	1.25,2,4
Arch Street, 740-940	2,041	215	2,256	4&6	2&4
Lackawanna Avenue, 1	0	1,981	1,981	2&4	1.25&2
Cedar Avenue, 500-800	1,813	0	1,813	Various	2
River Street, 400-600	1,330	161	1,491	4&10	2&4
E 10th Street, 200-400	1,330	90	1,420	4	2
George Avenue, 0	0	1,319	1,319	Various	1.25&4
Memorial Avenue, 1200	475	610	1,085	2&6	2
Broadway Street, 1	0	1,045	1,045	4	4

PROJECT DESCRIPTION	CAST IRON (FT)	BARE STEEL / WROUGHT IRON (FT)	TOTAL PIPE (BS, CI OR WI) ABANDONED (FT)	RETIRED PIPE SIZE (IN)	INSTALLED PIPE SIZE (IN)
Walnut Street, 200-400	600	400	1,000	4	2
Eynon Street, 700-800	940	0	940	4	2
E Ridge Avenue, 100	0	733	733	Various	2&6
Charles Street, 200	0	650	650	2	1.25
Crown Avenue, 1600	0	440	440	4	4
Wyoming Avenue, 1000	0	323	323	6	Various
Glenwood Street, 400-500	0	247	247	2	1.25
Dark Region Road, 1	0	200	200	6	Various

PROJECT DESCRIPTION	Estimated Spend
Muncy-Montgomery Loop Pipeline	\$3,000,000
Old Lycoming Loop Pipeline	\$2,000,000
Cathodic protection equipment	\$821,000
Cathodic protection equipment	\$771,000
Relocate 4910 of 2" & 4" plastic, with 4" plastic DB for PENNDOT, W 4th St, Williamsport	\$491,200
Cathodic protection equipment Honesdale / Milford	\$400,000
Replace inlet outlet piping 575'-12", Saylor M&R station, plains	\$400,000
Mary Street Bridge Crossing, Mountain Top	\$365,000
Cathodic protection equipment Central	\$350,000
Odorizer buildings	\$260,000

PROJECT DESCRIPTION	Estimated Spend
Install 470' of 6" steel gas main by directional bore and 480' of 6" plastic main by direct burial	\$250,000
Farm tap replacements – Southern	\$225,000
PennDOT Bridge, Install 500' of 12" steel by Directional Drill, RT 522, Kreamer	\$225,000
Replace large meter set reliefs and replace meter sets	\$200,000
Blanket Funding Roadway Projects - Southern Division	\$200,000
Farm tap replacements – Central	\$200,000
Blanket Funding Roadway Projects - Northern Division	\$200,000
Blanket Funding Roadway Projects - Central Division	\$200,000
Farm tap replacements – Northern	\$200,000
Cathodic protection equipment North	\$175,000

PROJECT DESCRIPTION	Estimated Spend
Cathodic protection equipment Central	\$175,000
Hilkert Road cathodic protection project	\$163,887
E. Main St, Wilkes Barre tie in	\$154,000
Cathodic protection equipment South	\$145,000
Relocate 4"&6" steel main for PennDOT Bridge, Perry Avenue, Hemlock Township	\$120,000
Middle Road, Nanticoke Traffic Circle Relocations	\$120,000
Cathodic protection projects South	\$100,000
PennDOT Highway Reconstruction Project	\$100,000
Install 50' of 6" steel main around culvert.	\$100,000
Install 780'-4" plastic main by Direct burial, Upper Demunds Rd, Dallas	\$100,000

PROJECT DESCRIPTION	Estimated Spend
Relocate approximately 400' of 4" and 8" plastic mains by direct burial.	\$100,000
SR 315, Pittston Twp. Cased High Pressure Crossing Replacement	\$58,000
Regulator station equipment	\$50,000
Rebuild District Regulator Station #76	\$45,000
Rebuild District Regulator Station #401	\$32,000
Rebuild District Regulator Station #112	\$32,000
Cathodic protection service replacements – South	\$25,000
Cathodic protection service replacements Honesdale	\$25,000
Cathodic protection service replacements Central	\$25,000
Cathodic protection service replacements North	\$25,000



PROJECT DESCRIPTION	Estimated Spend
Rebuild District Regulator Station #205	\$20,000
Blanket Funding Roadway Projects - Honesdale	\$19,000
Install electronic recorders at District Regulator Stations	\$15,000
Install electronic recorders at District Regulator Stations.	\$15,000
Farm tap replacements - Honesdale	\$15,000
Blanket Large Meter / Regulator Rebuilds	\$12,500
Blanket Large Meter / Regulator Rebuilds	\$12,500
Purchase 2" or Larger Regulators	\$12,500
Purchase 2" or Larger Regulators	\$12,500
Blanket Relief Valves	\$12,000

PROJECT DESCRIPTION	Estimated Spend
Blanket Relief Valves	\$12,000
Install new relief valve at District Regulator Station #333	\$12,000
Replace obsolete regulators	\$10,000
Install electronic recorders at District Regulator Stations	\$10,000
Install new relief valve at District Regulator Station #330	\$10,000
Purchase 2" or larger regulators in the Archbald operation area	\$10,000
Cathodic Protection - CP Services Annual Program (Honesdale/Milford)	\$10,000
Blanket relief Valves	\$8,000



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File #: 153583

February 29, 2016

***VIA ELECTRONIC FILING***

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street, 2nd Floor North  
P.O. Box 3265  
Harrisburg, PA 17105-3265

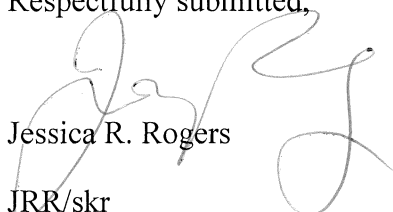
**Re: UGI Penn Natural Gas, Inc.  
Annual Asset Optimization Plan  
Docket No. M-2016-**

Dear Secretary Chiavetta:

Enclosed for filing on behalf of UGI Penn Natural Gas, Inc. is the Annual Asset Optimization Plan.

Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,



Jessica R. Rogers

JRR/skr  
Enclosures

cc: Certificate of Service

**CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

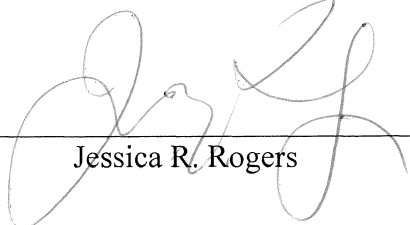
**VIA FIRST CLASS MAIL**

Erin L. Gannon  
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Steven C. Gray  
Office of Small Business Advocate  
Commerce Building  
300 North Second Street, Suite 202  
Harrisburg, PA 17101

Date: February 29, 2016



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Jessica R. Rogers

UGI PENN NATURAL GAS, INC.

2015-2016  
Annual Asset Optimization Plan

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Docket No. M-2016-

**2/29/2016**

**UGI Penn Natural Gas, Inc.**  
**2015-2016 Annual Asset Optimization Plan**

UGI Penn Natural Gas, Inc. (“UGI-PNG” or the “Company”) hereby submits to the Pennsylvania Public Utility Commission (“Commission”) its 2015-2016 Annual Asset Optimization Plan (“2015-2016 AAOP”) in connection with the Company’s 2014-2018 Long-Term Infrastructure Improvement Plan approved by the Commission in its Order entered September 11, 2014, at Docket No. P-2013-2397056 (“LTIIIP” or “Plan”). This 2015-2016 AAOP provides a description of: (1) the eligible property repaired, improved and replaced in the Plan’s 12-month period, January 1, 2015 through December 31, 2015; and (2) the eligible property to be repaired, improved and replaced in the Plan’s upcoming 12-month period, January 1, 2016 through December 31, 2016. As discussed in more detail below, this 2015-2016 AAOP demonstrates that over the above-referenced timeframes, UGI-PNG and its affiliates UGI Central Penn Gas, Inc. (“UGI-CPG”)<sup>1</sup> and UGI Utilities, Inc.—Gas Division (“UGI-GD”)<sup>2</sup> (collectively, the “UGI Distribution Companies” or “Companies”) have exceeded their combined mileage replacement goals and have exceeded their Plans’ anticipated capital expenditures due to an emphasis on system reliability improvements and increased expenditures related to service replacements and mandated relocations of utility facilities.

Concurrent with this 2015-2016 AAOP, UGI-PNG is filing a petition for approval of a major modification to its LTIIIP pursuant to 66 Pa.C.S. § 1352 and 52 Pa. Code § 121.5(a).

**I. Background**

Act 11 of 2012 (“Act 11”) became effective on February 14, 2012 and, among other things, authorized the Commission to approve a distribution system improvement charge (“DSIC”) upon petition by a public utility to recover the utility’s reasonable and prudent costs incurred to repair, improve or replace certain eligible distribution property that is part of the utility’s distribution system. As a precondition to implementing a DSIC under Act 11, a utility is required to receive Commission approval of a LTIIIP that is consistent with the provisions of Section 1352 and the Commission’s implementing orders.

On August 2, 2012, the Commission entered its Final Implementation Order at Docket No. M-2012-2293611 (“Final Implementation Order”), which established procedures and guidelines implementing Act 11. The Final Implementation Order adopted the requirements established in Section 1352 of the Public Utility Code while providing additional standards that LTIIIPs must meet and guidance to utilities for meeting the Commission’s standards. In the Final Implementation Order, the Commission noted that a utility’s AAOP is intended to provide the Commission and the public an overall status report regarding a utility’s compliance and progress

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<sup>1</sup> UGI-CPG’s LTIIIP was approved in an Opinion and Order entered on September 11, 2014 at Docket No. P-2013-2398835

<sup>2</sup> UGI-GD’s LTIIIP was approved in an Opinion and Order entered on July 31, 2014 at Docket No. P-2013-2398833.

in making infrastructure improvements pursuant to its Commission-approved LTIP. The Commission further stated in the Final Implementation Order that it expects a utility's AAOP to identify a utility's near-term construction projects that will be funded by the DSIC, consistent with the LTIP.

On May 22, 2014, the Commission entered its Final Rulemaking Order at Docket No. L-2012-2317274 ("Final Rulemaking Order"), establishing procedures and criteria for the filing and subsequent periodic review of LTIPs. Section 121.6 of the Final Rulemaking Order included required elements of and procedures for filing AAOPs, providing, in pertinent part:

- A utility with an approved DSIC must file an AAOP with the Commission, for informational purposes, on an annual basis within 60 days of the end of each 12-month period of the utility's LTIP;
- A utility's AAOP must include: (1) a description that specifies all the eligible property repaired, improved and replaced in the prior 12-month period under the utility's LTIP and prior year's AAOP, and (2) a description of the eligible property to be repaired, improved and replaced in the upcoming 12-month period;
- An AAOP will be reviewed by the Commission only to determine whether the utility is in substantial compliance with the repairs, improvements and/or replacements of the specific eligible property in its approved LTIP, for the corresponding 12-month timeframes; and
- An AAOP will be deemed approved within 60 days of its submission to the Commission, absent any major modifications to the utility's LTIP, Commission rejection of the AAOP or Commission extension of the consideration period.

Pursuant to the provisions of Act 11 and the Final Implementation Order, UGI-PNG filed Petitions for approval of its LTIP and DSIC on December 12, 2013, which were approved by the Commission on September 11, 2014. UGI-PNG's initial DSIC subsequently took effect on October 1, 2014.

This 2015-2016 AAOP is the second annual update under UGI-PNG's LTIP, which addresses the required elements for the Plan's 12-month period from January 1, 2015 through December 31, 2015, and the Plan's upcoming 12-month period from January 1, 2016 through December 31, 2016. This second AAOP demonstrates, in accordance with the Final Rulemaking Order, that the Company's performance meets or exceeds the overall schedule of repairs, improvements or replacements of the specific eligible property in its approved Plan for the corresponding 12-month timeframes. UGI-PNG is also providing the Company's capital placed in service and mileage replaced during the first two years of its LTIP.

## **II. Description of Eligible Property Repaired, Improved and Replaced in the 12-Month Period: January 1, 2015 through December 31, 2015**

As described in the Companies' LTIPs, the UGI Distribution Companies estimated the replacement of approximately 62 miles of cast iron and bare steel mains across the UGI Distribution Companies' service territories in 2015. As stated in each of the Companies' 2014-2015 AAOPs, the 2015 replacement plan for UGI-PNG included replacement of approximately 14 miles of combined cast iron and bare steel mains; for UGI-CPG, the 2015 replacement plan included approximately 15 miles of combined cast iron and bare steel mains<sup>3</sup>; and for UGI-GD the 2015 replacement plan included approximately 33 miles of combined cast iron and bare steel mains. A specific list of planned DSIC-eligible main replacement projects was included as Appendix A to the UGI-PNG AAOP filed on February 27, 2015.

As stated in the LTIPs, the amount of the annual UGI Distribution Companies' 62 mile main replacement plan allocated to each UGI Distribution Company will vary as risks are annually re-evaluated and re-prioritized across all UGI Distribution Companies. An annual review is performed to identify the highest risk pipe segments and prioritize those replacements each year. Risks are also re-evaluated over the course of the year as new information becomes available. This approach is consistent with the UGI Distribution Companies' Transmission Integrity Management Program ("TIMP") and Distribution Integrity Management Program ("DIMP") filed in accordance with Subpart P of 49 CFR Part 192.

In total, the UGI Distribution Companies exceeded LTIP plans by replacing 67 miles of cast iron, bare steel and wrought iron mains in the calendar year ended December 31, 2015. UGI-PNG exceeded its individual main replacement goals by replacing 17.6 miles of cast iron, bare steel and wrought iron mains to comply with the Companies' re-evaluation and reprioritization of risk across all UGI Distribution Companies.

The tables below provide a summary of the mains replaced by all UGI Distribution Companies and the detail of mileage replaced at UGI-PNG.

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<sup>3</sup> UGI-CPG's 2015 replacement plan specifically included replacement of approximately 15 miles of cast iron and bare steel mains with anticipation that UGI-CPG will replace an average of 17 miles per year of combined cast iron and bare steel mains over the span of the LTIP.



**Table 1.**

<b>UGI Distribution Companies Main Replacement Quantities</b>			
	LTIIP 2015 Planned Cast Iron, Bare Steel & Wrought Iron Pipe Replacement Quantity (Miles)	Calendar Year 2015 Planned Cast Iron, Bare Steel & Wrought Iron Pipe Replacement Quantity (Miles)	Calendar Year 2015 Actual Cast Iron, Bare Steel & Wrought Iron Pipe Replacement Quantity (Miles)
UGI-CPG	17.0 <sup>4</sup>	15.0	19.4
UGI-GD	33.0	33.0	30.4
UGI-PNG	12.0	14.0	17.6
<b>Total UGI Companies</b>	<b>62.0<sup>5</sup></b>	<b>62.0</b>	<b>67.4</b>

**Table 2.**

<b>UGI-PNG Pipe Replacement Detail</b>	
Material	Mileage Replaced
Bare Steel & Wrought Iron	10.3
Cast Iron	7.3
<b>Total</b>	<b>17.6</b>

Attached hereto as **Appendix A** is a list of DSIC-eligible main replacement projects that were completed during 2015 at UGI-PNG.

DSIC-eligible capital placed into service at UGI-PNG in calendar year 2015 was \$27.1 million. The investment placed into service is reflected in Table 3, below. Table 4 below enumerates the capital spend by asset type. It should be noted that total LTIIP expenditures exceeded the amounts reported below, however only those projects closed and placed into service for DSIC calculation purposes are shown.

**Table 3.**

<b>UGI Companies DSIC-Eligible Capital Placed in Service Calendar 2015</b>			
	LTIIP 2015 Planned Capital <sup>6</sup> (\$Millions)	Calendar Year 2015 Planned Capital (\$Millions)	Calendar Year 2015 Capital Placed in Service (\$Millions) <sup>7</sup>
UGI-CPG	\$13.5	\$20.4	\$18.6
UGI-GD	\$51.2	\$52.1	\$62.5
UGI-PNG	\$22.9	\$24.8	\$27.1
<b>Total UGI Companies</b>	<b>\$87.6</b>	<b>\$97.3</b>	<b>\$108.20</b>

<sup>4</sup> See note 3 above.

<sup>5</sup> The total 62 miles takes into account UGI-CPG's replacement plan of an average of 17 miles per year of cast iron and bare steel over the span of the LTTIP.

<sup>6</sup> At the time of submitting its LTIIP Petition in December 2013, projected LTIIP annual expenditures and related project lists were provided based on the Company's fiscal year, October 1st through September 30th, due to the Company's use of its fiscal year for capital budgeting purposes.

<sup>7</sup> Actual LTIIP expenditures are shown based on the calendar year ended December 31, 2015 to be consistent with the Company's 2015 mileage replacement commitments as expressed on a calendar year basis.

**Table 4.**

<b>UGI-PNG DSIC-Eligible Capital Placed into Service Detail Calendar 2015</b>		
Budget Group	Budget Group Description	Calendar Year 2015 Capital Placed in Service
58M	Replacement-Services	7,562,697
45M	Replacement-Cast Iron	2,271,479
41M	Replacement-Leaks	7,706,719
43M	Replacement-Ahead of Paving	521,023
44M	Replacement-Other	1,135,743
51M	Maintenance-Meters	692,487
09O	M & R Station Equipment	2,566,492
12O	System Reliability Improvements	3,046,653
11O	Corrosion Control	989,090
01O	Misc-Plant Equipment	655,000
<u>Total</u>		<u>27,147,383</u>

**III. Description of Capital Placed in Service and Pipe Replacement Quantities in the Initial 2 Year Period of the 5 Year LTIP: January 1, 2014 – December 31, 2015**

Though not required to be provided in the AAOP, the Companies are providing the information in Table 5 to demonstrate cumulative capital placed in service and pipe replacement mileage for the first two years of the Plan.

**Table 5.**

<b>UGI Companies Cumulative Replacements Under LTIP</b>		
	Cumulative 2014 and 2015 Capital Placed in Service (\$Millions) <sup>8</sup>	Cumulative 2014 and 2015 Actual Cast Iron, Bare Steel & Wrought Iron Pipe Replacement Quantity (Miles)
UGI-CPG	\$27.0	32.4
UGI-GD	\$121.5	70.8
UGI-PNG	\$53.2	26.8
<u>Total UGI Companies</u>	<u>\$201.7</u>	<u>130.0</u>

**IV. Description of Eligible Property To Be Repaired, Improved and Replaced in the Upcoming 12-Month Period: January 1, 2016 – December 31, 2016**

In calendar year ending December 31, 2016, approximately 64 miles or more of cast iron, bare steel and wrought iron main are estimated to be replaced across all UGI Distribution Companies. For UGI-PNG, the 2016 replacement plan will include approximately 14 miles of

<sup>8</sup> The totals reflected in this table include all LTIP projects completed and placed in service between January 1, 2014 and December 31, 2015.

cast iron, bare steel and wrought iron mains. These estimates are subject to change based on the UGI Distribution Companies' process for the annual re-evaluation and re-prioritization of projects across all UGI Distribution Companies. The estimated DSIC-eligible capital spend at UGI-PNG in 2016 is \$35.9 million.

**Table 6.**

<b>UGI Companies Main Replacement Quantities</b>		
	LTIIP Plan Cast Iron, Bare Steel & Wrought Iron Pipe Replacement Quantity (Miles)	Calendar Year 2016 Cast Iron, Bare Steel & Wrought Iron Pipe Replacement Plan (Miles)
UGI-CPG	17	17
UGI-GD	33	33
UGI-PNG	12	14
<u>Total UGI Companies</u>	<u>62</u>	<u>64</u>

Attached hereto in **Appendix B** is a list of DSIC-eligible main replacement projects that are planned during 2016 at UGI-GD.

**Table 7.**

<b>UGI Companies DSIC Eligible Capital Planned Calendar 2016</b>		
	LTIIP 2016 Plan Capital (\$Millions)	Calendar Year 2016 Plan Capital (\$Millions) <sup>9</sup>
UGI-CPG	\$14.0	\$27.1
UGI-GD	\$51.2	\$92.9
UGI-PNG	\$22.9	\$35.9
<u>Total UGI Companies</u>	<u>\$88.1</u>	<u>\$155.9</u>

## **V. Major Modification**

As reported in the UGI-PNG 2015-2016 AAOP, UGI-PNG has exceeded the DSIC-eligible capital placed in service that was originally projected for the first two years of its LTIIP. UGI-PNG initially anticipated annual DSIC-eligible capital spending of \$22.9 million per year for each year of the LTIIP, which would have equated to \$45.8 million in actual capital spend for the first two years of the LTIIP. However, as indicated in Table 5, UGI-PNG has placed in service \$53.2 million of DSIC-eligible capital from January 1, 2014 to December 31, 2015. In addition, as shown in Table 7, UGI-PNG projects a significant increase above the \$22.9 million identified in the LTIIP for 2016.

<sup>9</sup> The UGI Distribution Companies budget for capital expenditures on a fiscal year basis. The Companies' 2016 fiscal year ends September 30, 2016. However, planned future capital expenditures are expected to keep pace with fiscal year 2016 budgeted expenditures, so the calendar year 2016 Plan capital is expected to match fiscal year capital planning.

UGI-PNG's actual and projected DSIC-eligible capital investment for 2014 through 2018 will increase the total estimated cost of the LTIP by more than 20%. Therefore, pursuant to 66 Pa.C.S. § 1352 and 52 Pa. Code § 121.5(a), UGI-PNG is concurrently filing a *Petition of UGI Penn Natural Gas Inc. for Approval of a Modification to its Long Term Infrastructure Improvement Plan* ("Petition").

As more fully described in the Petition, the projects driving UGI-PNG to exceed its LTIP investment projections are in three primary categories: (1) system reliability improvements; (2) service replacements; and (3) mandated relocations of utility facilities. A list of these projects is attached hereto as **Appendix C**. These project categories have little to no impact on the Company's achievement of its LTIP cast iron and bare steel mileage replacement commitments. However, as described more fully in the Petition, increased spending on these categories of projects is required to ensure system reliability for UGI-PNG's customers, to meet operational needs, and to comply with legislative and regulatory mandates.

Appendix A  
 Cast Iron, Bare Steel, Wrought Iron  
 Replacement Projects Placed in Service  
 Calendar Year Ended December 31, 2015

PROJECT DESCRIPTION	CAST IRON (FT)	BARE STEEL / WROUGHT	TOTAL PIPE (BS, CI OR WI)	RETIRED PIPE SIZE	INSTALLED PIPE SIZE
Dorothy Street, 0	7,645	973	8,618	4,6,10	2,3,4
Grafius Street, 400	6,644	543	7,187	3	2
King Street, 300-800	725	4,312	5,037	6	1.25,2,4
7th Street, 000	0	4,443	4,443	4	1.25 & 2
River Street, 000	2,672	1,761	4,433	Various	Various
W Shawnee Avenue, 0	2,660	1,760	4,420	Various	1.25&2
Route 405, 1100	0	3,890	3,890	4	4
Riverside Drive, 1	0	3,650	3,650	Various	2
Spring Garden Avenue, 1600-2000	0	3,614	3,614	4	1.25&2
Market Street, 1100-1400	3,600	0	3,600	4	2
King Street, 0	1,399	1,987	3,386	3	2
Loomis Street, 0	0	2,748	2,748	6	6
S Washington Street, 0-100	0	2,712	2,712	10&12	4
Market Street, 450-900	2,460	220	2,680	4	2

Appendix A  
 Cast Iron, Bare Steel, Wrought Iron  
 Replacement Projects Placed in Service  
 Calendar Year Ended December 31, 2015

PROJECT DESCRIPTION	CAST IRON (FT)	BARE STEEL / WROUGHT	TOTAL PIPE (BS, CI OR WI)	RETIRED PIPE SIZE	INSTALLED PIPE SIZE
Texas Palmyra Highway, 900	0	2,200	2,200	4	8
Old Berwick Road, 1000-4000	0	2,007	2,007	Various	Various
Oakford Road, 1	0	1,872	1,872	3&4	Various
Park Avenue, 300-400	526	1,325	1,851	Various	4&6
Prescott Avenue, 200-500	1,506	293	1,799	2&4	1.25,2, &4
Memorial Avenue, 500	300	1,332	1,632	6	2
Montour Street, 0	0	1,600	1,600	various	6
Mary Street, 1	1,440	58	1,498	2&4	2&4
State Street, 200-400	0	1,455	1,455	6	4
N Sumner Avenue, 700-800	1,403	0	1,403	Various	Various
Old Berwick Road, 7200-7300	0	1,350	1,350	2	1.25&2
Luzerne Street, 700-900	1,260	0	1,260	4	2
Church Alley 3, 2	0	1,260	1,260	6	4
Harlem Avenue, 0-100	300	945	1,245	Various	Various
Mulberry Street, 400	1,060	0	1,060	4	2

Appendix A  
Cast Iron, Bare Steel, Wrought Iron  
Replacement Projects Placed in Service  
Calendar Year Ended December 31, 2015

PROJECT DESCRIPTION	CAST IRON (FT)	BARE STEEL / WROUGHT	TOTAL PIPE (BS, CI OR WI)	RETIRED PIPE SIZE	INSTALLED PIPE SIZE
Moon Valley Road, 149	0	1,047	1,047	1	1.25
Meadow Avenue, 0	0	988	988	4	2
1st Avenue, 700-900	850	0	850	4	2
Coughlin Street, 100-300	600	0	600	4	2
N 6th Street, 400	0	580	580	6	N/A
Fellows Avenue, 0	0	570	570	4&6	6
S Mercer Street, 400	0	565	565	2-Jan	2
Locust Street, 100-200	475	0	475	4	4
Pennsylvania Avenue, 300	0	460	460	3	4
Monroe Avenue, 1000	420	0	420	4	2
Euclid Avenue, 2400	0	350	350	4	2
Meyers Street, 0	0	347	347	4-Jan	2
Terrace Street, 500	0	325	325	Various	1.25
Terrace Street, 516	0	325	325	2	1.25

Appendix A  
 Cast Iron, Bare Steel, Wrought Iron  
 Replacement Projects Placed in Service  
 Calendar Year Ended December 31, 2015

PROJECT DESCRIPTION	CAST IRON (FT)	BARE STEEL / WROUGHT	TOTAL PIPE (BS, CI OR WI)	RETIRED PIPE SIZE	INSTALLED PIPE SIZE
Woodward Avenue, 3093	0	289	289	6	8
Hepburn Street, 508	281	0	281	3&4	N/A
Turbot Avenue, 0	0	182	182	2	2
Vine Street, 1500	165	0	165	Various	2
York Lane, 14	0	129	129	2	Various
Hollow Avenue, 0	0	32	32	6&10	8
Poplar Street, 79	0	23	23	6	6
Morse Avenue, 7	0	20	20	4	4



PROJECT DESCRIPTION	CAST IRON (FT)	BARE STEEL / WROUGHT IRON (FT)	TOTAL PIPE (BS, CI OR WI) ABANDONED (FT)	RETIRED PIPE SIZE (IN)	INSTALLED PIPE SIZE (IN)
W 3rd Street, 800-1500	18,900	3,120	22,020	Various	2,4,8
Mulberry Street, 1	6,100	0	6,100	4	2
Cedar Avenue, 2500-3200	0	3,967	3,967	Various	Various
Arch Street, 0	1,632	1,300	2,932	Various	Various
4th Street, 350-500	1,129	1,702	2,831	Various	1.25,2,4
Arch Street, 740-940	2,041	215	2,256	4&6	2&4
Lackawanna Avenue, 1	0	1,981	1,981	2&4	1.25&2
Cedar Avenue, 500-800	1,813	0	1,813	Various	2
River Street, 400-600	1,330	161	1,491	4&10	2&4
E 10th Street, 200-400	1,330	90	1,420	4	2
George Avenue, 0	0	1,319	1,319	Various	1.25&4
Memorial Avenue, 1200	475	610	1,085	2&6	2
Broadway Street, 1	0	1,045	1,045	4	4

PROJECT DESCRIPTION	CAST IRON (FT)	BARE STEEL / WROUGHT IRON (FT)	TOTAL PIPE (BS, CI OR WI) ABANDONED (FT)	RETIRED PIPE SIZE (IN)	INSTALLED PIPE SIZE (IN)
Walnut Street, 200-400	600	400	1,000	4	2
Eynon Street, 700-800	940	0	940	4	2
E Ridge Avenue, 100	0	733	733	Various	2&6
Charles Street, 200	0	650	650	2	1.25
Crown Avenue, 1600	0	440	440	4	4
Wyoming Avenue, 1000	0	323	323	6	Various
Glenwood Street, 400-500	0	247	247	2	1.25
Dark Region Road, 1	0	200	200	6	Various

PROJECT DESCRIPTION	Estimated Spend
Muncy-Montgomery Loop Pipeline	\$3,000,000
Old Lycoming Loop Pipeline	\$2,000,000
Cathodic protection equipment	\$821,000
Cathodic protection equipment	\$771,000
Relocate 4910 of 2" & 4" plastic, with 4" plastic DB for PENNDOT, W 4th St, Williamsport	\$491,200
Cathodic protection equipment Honesdale / Milford	\$400,000
Replace inlet outlet piping 575'-12", Saylor M&R station, plains	\$400,000
Mary Street Bridge Crossing, Mountain Top	\$365,000
Cathodic protection equipment Central	\$350,000
Odorizer buildings	\$260,000

PROJECT DESCRIPTION	Estimated Spend
Install 470' of 6" steel gas main by directional bore and 480' of 6" plastic main by direct burial	\$250,000
Farm tap replacements – Southern	\$225,000
PennDOT Bridge, Install 500' of 12" steel by Directional Drill, RT 522, Kreamer	\$225,000
Replace large meter set reliefs and replace meter sets	\$200,000
Blanket Funding Roadway Projects - Southern Division	\$200,000
Farm tap replacements – Central	\$200,000
Blanket Funding Roadway Projects - Northern Division	\$200,000
Blanket Funding Roadway Projects - Central Division	\$200,000
Farm tap replacements – Northern	\$200,000
Cathodic protection equipment North	\$175,000

PROJECT DESCRIPTION	Estimated Spend
Cathodic protection equipment Central	\$175,000
Hilkert Road cathodic protection project	\$163,887
E. Main St, Wilkes Barre tie in	\$154,000
Cathodic protection equipment South	\$145,000
Relocate 4"&6" steel main for PennDOT Bridge, Perry Avenue, Hemlock Township	\$120,000
Middle Road, Nanticoke Traffic Circle Relocations	\$120,000
Cathodic protection projects South	\$100,000
PennDOT Highway Reconstruction Project	\$100,000
Install 50' of 6" steel main around culvert.	\$100,000
Install 780'-4" plastic main by Direct burial, Upper Demunds Rd, Dallas	\$100,000

PROJECT DESCRIPTION	Estimated Spend
Relocate approximately 400' of 4" and 8" plastic mains by direct burial.	\$100,000
SR 315, Pittston Twp. Cased High Pressure Crossing Replacement	\$58,000
Regulator station equipment	\$50,000
Rebuild District Regulator Station #76	\$45,000
Rebuild District Regulator Station #401	\$32,000
Rebuild District Regulator Station #112	\$32,000
Cathodic protection service replacements – South	\$25,000
Cathodic protection service replacements Honesdale	\$25,000
Cathodic protection service replacements Central	\$25,000
Cathodic protection service replacements North	\$25,000

PROJECT DESCRIPTION	Estimated Spend
Rebuild District Regulator Station #205	\$20,000
Blanket Funding Roadway Projects - Honesdale	\$19,000
Install electronic recorders at District Regulator Stations	\$15,000
Install electronic recorders at District Regulator Stations.	\$15,000
Farm tap replacements - Honesdale	\$15,000
Blanket Large Meter / Regulator Rebuilds	\$12,500
Blanket Large Meter / Regulator Rebuilds	\$12,500
Purchase 2" or Larger Regulators	\$12,500
Purchase 2" or Larger Regulators	\$12,500
Blanket Relief Valves	\$12,000

PROJECT DESCRIPTION	Estimated Spend
Blanket Relief Valves	\$12,000
Install new relief valve at District Regulator Station #333	\$12,000
Replace obsolete regulators	\$10,000
Install electronic recorders at District Regulator Stations	\$10,000
Install new relief valve at District Regulator Station #330	\$10,000
Purchase 2" or larger regulators in the Archbald operation area	\$10,000
Cathodic Protection - CP Services Annual Program (Honesdale/Milford)	\$10,000
Blanket relief Valves	\$8,000