

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

555 Walnut Street, 5th Floor, Forum Place
Harrisburg, Pennsylvania 17101-1923
(717) 783-5048
800-684-6560

FAX (717) 783-7152
consumer@paoca.org

January 4, 2017

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 171020

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 Revenues
Docket No. P-2016-2537594

Dear Secretary Chiavetta:

Attached for electronic filing please find the Office of Consumer Advocate's Exceptions to the Recommended Decision in the above-referenced proceeding.

Copies have been served per the attached Certificate of Service.

Respectfully submitted,

/s/ Erin L. Gannon

Erin L. Gannon
Assistant Consumer Advocate
PA Attorney I.D. #83487

Attachment

cc: Honorable Angela T. Jones
ra-OSA@pa.gov (e-mail only)
Certificate of Service
228487

CERTIFICATE OF SERVICE

Petition of UGI Penn Natural Gas, Inc. :
for a Waiver of the Distribution System :
Improvement Charge Cap of 5% of Billed : Docket No. P-2016-2537594
Distribution Revenues and Approval to :
Increase the Maximum Allowable DSIC :
to 10% of Billed Revenues :

I hereby certify that I have this day served a true copy of the following document, the Office of Consumer Advocate’s Exceptions to the Recommended Decision, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 4th day of January 2016.

SERVICE BY E-MAIL & INTER-OFFICE MAIL

Carrie B. Wright, Esquire
Bureau of Investigation and Enforcement
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

SERVICE BY E-MAIL & FIRST CLASS MAIL, POSTAGE PREPAID

Steven C. Gray, Esquire
Small Business Advocate
Office of Small Business Advocate
300 North Second Street
Harrisburg, P A 17101

Jessica R. Rogers, Esquire
David B. Macgregor
Post & Schell
17 North Second Street, 12th Floor
Harrisburg, PA 17101

Danielle Jouenne, Esquire
UGI Corporation
460 Gulph Road
King of Prussia, PA 19406

/s/ Erin L. Gannon

Erin L. Gannon
Senior Assistant Consumer Advocate
PA Attorney I.D. # 83487
E-Mail: EGannon@paoca.org

Darryl Lawrence
Senior Assistant Consumer Advocate
PA Attorney I.D. # 93682
E-Mail: DLawrence@paoca.org

Counsel for Office of Consumer Advocate
555 Walnut Street, 5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
*228490

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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 : Docket No. P-2016-2537594
Increase the Maximum Allowable DSIC to :
10% of Billed Revenues :

EXCEPTIONS OF THE
OFFICE OF CONSUMER ADVOCATE

Erin L. Gannon
Senior Assistant Consumer Advocate
PA Attorney I.D. # 83487
E-Mail: EGannon@paoca.org

Counsel for:
Tanya J. McCloskey
Acting Consumer Advocate

Office of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
Fax: (717) 783-7152
Dated: January 4, 2017

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I. INTRODUCTION

Act 11 of 2012 amended Chapter 13 of Title 66 of the Public Utility Code to grant the Commission authority to allow utilities to implement a Distribution System Improvement Charge (DSIC), which permits recovery of certain reasonable and prudent capital costs incurred to repair, improve or replace eligible property. 66 Pa. C.S. §§ 1350-1360 (effective Apr. 16, 2012). Act 11 also provided several consumer protections, including the requirement that the DSIC may not exceed 5 percent of amounts billed to customers. 66 Pa. C.S. § 1358(a)(1).

UGI Penn Natural Gas (UGI-PNG or Company) wants the Commission to waive the 5 percent cap and increase the maximum DSIC to 10 percent of billed distribution revenues. The statutory standard is whether the waiver is necessary “to ensure and maintain adequate, efficient, safe, reliable and reasonable service.” *Id.* Through witnesses and briefs, the Office of Consumer Advocate (OCA) and Office of Small Business Advocate (OSBA) have demonstrated that UGI-PNG’s Petition should be denied as filed. The evidence shows that UGI-PNG has not met the standard for waiver because, by its own admission, it is able to continue an accelerated infrastructure replacement program without any increase to the DSIC cap. UGI-PNG is on track to replace all of its cast iron mains within 14 years and its bare steel mains within 30 years. The Company has made progress in reducing risk with a DSIC capped at 5 percent. There has been growth in UGI-PNG’s loads and customer count since the Company’s most recent base rate case. The OCA and OSBA have shown that, when all relevant facts have been considered, UGI-PNG has not demonstrated that waiver of the 5 percent cap is warranted under Section 1358(a)(1).

Even if the Commission determines that waiver is necessary, the OCA and OSBA have established that the Company has provided no reasonable basis for the Commission to exercise

its discretion to increase the DSIC cap to 10 percent. The only alleged benefit to ratepayers is the potential avoidance of costs associated with base rate cases. UGI-PNG makes no commitment, however, that it will delay filing a base rate case if the cap is raised to 10 percent. The Company has not filed a base rate case in 7 years and has never utilized the Act 11 future test year mechanism.

On December 1, 2016, the Office of Administrative Law Judge issued the Recommended Decision (R.D.) of Administrative Law Judge Angela T. Jones. The ALJ recommended approving UGI-PNG's requested waiver. R.D. at 21-26. The ALJ also recommended that the Commission exercise its discretion to increase the cap to 6.89 percent. R.D. at 28-29.

The OCA respectfully submits the following Exceptions to the Recommended Decision of ALJ Jones.

II. EXCEPTIONS

OCA Exception No. 1: The ALJ Applied an Incorrect Standard for Waiver. R.D. at 21-26; OCA M.B. at 4-5; OCA R.B. at 1-7.

The standard for granting a waiver of the 5 percent DSIC cap is provided in Section 1358(a)(1):

The commission 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); R.D. at 15. The Commission has clarified that it will grant a waiver of the 5 percent cap if there is substantial evidence that waiver is necessary to ensure and maintain safe and reliable service. Petition of Columbia Gas of Pa., Inc. for a Waiver of the DSIC Cap, Docket No. P-2016-2521993, Order at 57 (Dec. 22, 2016) (Columbia); Implementation of Act 11

of 2012, Docket No. M-2012-2293611, Final Implementation Order at 41 (Aug. 2, 2012) (Final Implementation Order).

The ALJ did not apply this standard, however, in reaching the conclusion that a waiver of the 5 percent cap is warranted. The ALJ created a new standard, that waiver can be granted “when a utility shows that the initial 5% DSIC rate cap is not sufficient to support its planned levels of plant replacement and DSIC-eligible spending corresponding to the utility’s LTIP.”

R.D. at 19. The ALJ stated:

By approving the modified LTIP the Commission acknowledged that an increased amount of DSIC-eligible plant needed to be addressed. Thus, the Company has provided substantial evidence for the 5% cap on distribution revenues for the DSIC rate to be waived, because the modified LTIP is approved for “the manner in which the replacement of aging infrastructure will be accelerated and how the repair, improvement or replacement will ensure and maintain adequate, efficient, safe, reliable and reasonable service.”

R.D. at 21 (citing 66 Pa. C.S. § 1352(a)(6)) (emphasis added).

The ALJ’s proposed standard would abolish the protections of the DSIC cap, limiting its application to “initial” DSICs only. This is not supported by the plain language of the Act, its legislative history and prior Commission decisions. See OCA R.B. at 3-7. Moreover, application of this standard would fundamentally change the process established by the Commission for review of LTIP modifications. The Commission has stated repeatedly that its approval of a utility’s LTIP does not address whether the plant included in the LTIP is DSIC-eligible or how the costs will be recovered. See, e.g., Petition of UGI Penn Natural Gas, Inc. for Approval of its LTIP, Docket No. P-2013-2397056, Order at 24 (Sept. 11, 2014) (2014 LTIP); Petition of Peoples TWP, LLC for Approval of its LTIP, Docket No. P-2013-2344595, Order at

42-43 (May 23, 2013); Petition of Duquesne Light Co. for Approval of its LTIP, Docket No. P-2016-2540046, Order at 23 (Sept. 15, 2016).

The correct standard, and that advanced by the OCA and OSBA, is that there should be evidence of need for the waiver, beyond the Commission's approval of a supporting LTIP. This standard was upheld by the Commission in Columbia, where it stated:

We also agree with the ALJ's conclusion that more evidence is required for approval of a waiver of the 5% DSIC cap or limit in Section 1358, than is required in Section 1353. Therefore, we find no merit in Columbia's argument that the same standard should be applied in approving both the initial DSIC request and the 5% DSIC cap waiver request.

Columbia at 49.

The ALJ's recommendation is based on an inconsistent and incorrect application of Section 1358(a)(1) and should be denied.

OCA Exception No. 2: The ALJ Erred in Finding That UGI-PNG Met the Burden for Waiver of the 5 Percent Cap.
R.D. at 20-26; OCA M.B. at 5-10; OCA R.B. at 8-9.

When the correct standard is applied and all the relevant evidence is considered, the record does not support the ALJ's recommended waiver of the statutory 5 percent cap for UGI-PNG.

A. No Acceleration of Main Replacement.

The ALJ relied heavily on the fact that UGI-PNG received approval of a modified LTIP and that up to 14.09 percent of distribution revenues is needed for implementation of its modified LTIP. R.D. at 26. The Commission has recognized, however, that Act 11 does not mandate that the Commission guarantee that a utility be able to collect all of its eligible infrastructure investments through a quarterly surcharge. Columbia at 50, 57; Petition of Philadelphia Gas

Works for Waiver of Provisions of Act 11, Docket No. P-2015-2501500, Order at 54-55 (Jan. 28, 2016) (PGW). The Commission stated:

We agree that the 5% DSIC cap underscores the function of the DSIC, which is to supplement, rather than replace base rate proceedings.

Columbia at 50. In the case of Columbia Gas, the utility committed to having a supporting LTIP in place prior to charging a DSIC exceeding the 5 percent DSIC cap. Id. at 55, n.16. No party challenged that Columbia's projected spending would exceed 5 percent cap. The Commission denied the waiver, nonetheless. Id. As for UGI-PNG, DSIC-eligible investment in excess of the cap, if otherwise prudent, will be added to rate base and reflected in new base rates. Until the Company elects to file a base rate case, it still has the opportunity to recover its investment through a DSIC rate of up to 5 percent of distribution bills. The waiver applies only to the recovery of the *return and depreciation* on incremental investment, between base rate cases and, even more narrowly, outside of the 12 month period after the future test year. 66 Pa. C.S. § 315(e).

In Columbia, the Commission emphasized that because the utility had not filed a supporting LTIP, it had not tied the waiver to "acceleration" of its rate of main replacement. Columbia at 49-50 ("Columbia has indicated that it does not intend to further accelerate its already aggressive rate of main replacement even if the DSIC cap is increased.") The Commission made this finding even though Columbia had already accelerated its spending in excess of the amounts projected in its LTIP. Id. at 11. Like Columbia Gas, UGI-PNG's waiver request is not tied to an acceleration of its main replacement. UGI-PNG filed a modified LTIP because its projected spending increased. The modifications do not reflect any acceleration of its main replacement. Rather, in approving the 2016 LTIP modifications, the Commission re-

approved the same replacement schedule for UGI-PNG that it originally approved in 2014. See 2014 LTIP at 17; Petition of UGI Penn Natural Gas, Inc. for Approval of its Modified LTIP, Docket No. P-2013-2397056, Order at 4, 6 (June 30, 2016) (2016 LTIP).

B. Current Rate of Replacement Is Adequate.

There has been no showing that the current state of PNG's infrastructure poses significant safety and reliability issues or that the current pace of the Company's replacement efforts is unacceptable and potentially harmful to the public. OCA St. 1 at 6. In addition, the record shows that UGI-PNG has made progress in reducing risk with a DSIC capped at 5 percent. OCA St. 1R at 2. OCA witness Mierzwa stated:

[O]verall, as indicated in the Company's response to I&E-GS-2, PNG's risk for cast iron/wrought iron mains declined from 57,547.93 to 52,263.99, or nearly 10 percent in 2015 from 2014. Risk for bare steel mains has decreased from 54,476.82 to 42,512.15, or nearly 22 percent, in 2015 from 2014. Therefore, it appears that PNG has made substantial progress in reducing risk in 2015. The year 2015 was the first full year PNG's DSIC was in place, and the DSIC cap was set at 5.00 percent of distribution revenues. Therefore, at this time, there appears to be no reason to increase PNG's DSIC cap to a level higher than 5 percent.

Id. Company witness McAllister expressed concern that some of the specific risk statistics "may not be adequately portraying the overall gas safety progress UGI-CPG and UGI-Penn Natural Gas, Inc. are making." PNG St. 1R at 4. Company witness Bell noted that UGI-PNG reduced its pending leak inventory by 22 percent between 2012 and 2015. PNG St. 2R at 4. This again calls into question the need by UGI-PNG for a waiver of this important consumer protection.

The ALJ concluded, to the contrary, that the existence of any leaks on a gas distribution system provides substantial evidence to waive the capped DSIC rate. R.D. at 22. She reasoned that if any leaks exist, the leaks should be repaired in the interest of public safety. She stated: "The best way to curtail leaks in the distribution system of an NGDC is to accelerate the

replacement of at risk piping.” As noted, however, UGI-PNG’s modified LTIP *does not accelerate the replacement of at risk piping*. It maintains the same replacement schedule as the Company’s initial LTIP – all cast iron mains within 14 years and all bare steel mains within 30 years. 2014 Order at 17; 2016 Order at 4, 6.

In this way, UGI-PNG is similarly situated to Columbia Gas, where the utility accelerated its *spending* but did not plan to accelerate its rate of replacement. For Columbia, the Commission concluded that accelerated spending was not substantial evidence of need for waiver. Columbia at 56-58. It stated:

[I]n our recent review of Columbia’s LTIP, we concluded that “the company appears to be on track to meet or exceed their current LTIP and long-term goals in a cost effective manner.” Furthermore, Columbia stated that the waiver of the DSIC cap may not necessarily accelerate its main replacement schedule. While we applaud Columbia’s resolve to keep its system safe and reliable by aggressively replacing its at-risk mains, nothing on the record affirms that a waiver of the 5% DSIC cap is necessary to “ensure and maintain adequate, efficient, safe, reliable and reasonable service,” as required by 66 Pa. C.S. § 1358(a)(1). Therefore, we conclude that Columbia has not presented sufficient evidence to warrant a waiver of the DSIC cap and an increase of the cap from 5% to 10% of billed distribution revenues.

Id. at 57 (citations omitted). Like Columbia Gas, the Commission has approved UGI-PNG’s current rate of replacement. 2014 Order at 19; PNG Exh. WJM-4; 2016 Order. UGI-PNG’s percentage of at-risk cast iron and unprotected steel mains was only 15 percent of its total distribution mains at the end of 2012. 2014 Order at 8-9. The Company’s risk for cast iron and bare steel declined significantly in 2015, by 10 and 22 percent respectively. OCA St. 1R at 2. As in Columbia, the state of UGI-PNG’s distribution infrastructure and rate of replacement do not weigh in favor of waiving the DSIC cap.

This is in stark contrast to the evidence presented in Philadelphia Gas Work's waiver petition, where the Commission noted that 66 percent of PGW's mains were at-risk, and gas leaks and broken pipes were increasing markedly. PGW at 41-42. The Commission approved a waiver of the DSIC cap for PGW to reduce the replacement time for cast iron mains from 86 to 48 years. Id. at 10, 14.

C. No Commitment to Reduce the Frequency of Base Rate Proceedings.

The ALJ also accepted UGI-PNG's argument that without a waiver of the DSIC cap, the utility might be forced to undertake a base rate proceeding to ensure its financial health. R.D. at 26. Like Columbia Gas, however, UGI-PNG makes no commitment to reduce the frequency of its base rate case filings if waiver is granted. PNG St. 1R at 3; Columbia at 54. Company witness McAllister acknowledged that there are other drivers for base rate case filings:

Even if we assumed that the DSIC could recover every dollar associated with DSIC eligible investment and there was no DSIC cap at all, periodic base rate relief would still be needed to address the other increasing costs experienced by the Company. The DSIC does not cover many categories of the Company's operating expenses and other capital expenditures, which can only be addressed through a base rate proceeding.

PNG St. 1R at 10-11. Similarly, OCA witness Mierzwa stated:

Numerous economic and financial factors together determine the frequency with which PNG, and other utilities, must file base rate increase requests and the costs incurred in the review of those requests. Some of those factors are within the control of the Company. As a result, there is no way of knowing whether the increase in the DSIC rate cap will change the timing of PNG's future rates filings.

OCA St. 1 at 7; see also OSBA St. 1 at 11.

D. No Evidence of Need.

Taken together the facts do not establish that UGI-PNG needs to increase the DSIC cap above 5 percent in order to ensure and maintain safe and reliable service. In particular, the OCA notes the following:

1. There has been no showing that the current state of PNG's infrastructure poses significant safety and reliability issues or that the current pace of the PNG's replacement efforts is unacceptable and potentially harmful to the public. OCA St. 1 at 6-8; OCA St. 1R at 2-3; OCA St. 1S at 4; OCA M.B. at 5-10; OSBA M.B. at 5-20.
2. UGI-PNG is on track to replace all of its cast iron mains within 14 years and its bare steel mains within 30 years – even with a 5 percent DSIC cap. PNG Exh. WJM-4; OCA St. 1 at 6 (citing PNG response to OCA Set I-1).
3. There has been growth in UGI-PNG's loads and customer count since the Company's most recent base rate case. OSBA St. 1 at 12-13, Table IEC-2; 2016 Order at 6.
4. The Company's most recent base rate case was filed in 2009. P.U.C. v. UGI Penn Natural Gas, Inc., Docket No. R-2008-2079660, Order (Aug. 27, 2009).
5. The year 2015 was the first full year UGI-PNG's DSIC was in place. OCA St. 1R at 2.
6. The Company has made progress in reducing risk with a DSIC capped at 5 percent. OCA St. 1R at 2.
7. UGI-PNG has undertaken significant cost reduction efforts since its last base rate case. OSBA St. 1 at 13 (citing PNG response to OSBA-I-6).
8. The Company does not commit to any stay out if the DSIC cap is increased above 5 percent. PNG St. 1R at 12; see OCA St. 1 at 8.

It should also be noted that UGI-PNG has never used a fully forecasted rate year (FFRY). 66 Pa. C.S. § 315(e). That tool, which was established by the same legislation that authorized a DSIC for gas utilities, would allow the Company to reflect projected plant in service, including forecasted DSIC-eligible plant additions, in base rates. At UGI-PNG's current level of spending,

a 5 percent cap provides roughly 18 to 26 months of DSIC recovery. OSBA St. 1 at 11-12, Table IEc-1. Use of a FFRY increases this estimate to 30 to 36 months. Id. The goal of extending the time between rate cases, thus, can be accomplished without increasing the DSIC cap by 5 percent.

Each of these facts weighs against the need by UGI-PNG for a waiver of the DSIC cap.¹ The Company has failed to provide sufficient evidence to demonstrate that an increase beyond the currently approved 5 percent DSIC cap is warranted. Accordingly, the OCA recommends that the Commission reverse the ALJ's recommendation and deny the Petition for waiver.

OCA Exception No. 3: The ALJ Erred in Recommending an Increase Above the 5 Percent Cap.

R.D. at 26-29; OCA M.B. at 11-13; OCA R.B. at 9.

A. No Evidentiary Basis to Increase the DSIC Cap to 6.8 Percent.

As the Commission recently stated in Columbia, the DSIC rate must be just and reasonable under Section 1301 of the Public Utility Code. 66 Pa. C.S. § 1301; Columbia at 9. The OCA specifically opposes the ALJ's recommendation to increase the DSIC cap to 6.8 percent. The Company projects that it will need a DSIC rate of 14.02 percent to avoid all risk of regulatory lag through the end of its LTIP period. PNG Exh. WJM-3. The ALJ determined that UGI-PNG's proposed 10 percent cap is approximately 70 percent² of that DSIC rate and found that did not properly balance the interests of UGI-PNG and its ratepayers. R.D. at 29. The OCA agrees that this is an improper balance but the ALJ's attempt to calculate a different DSIC cap

¹ Cf. Columbia at 51-54, 56-57 (The ALJ and Commission relied on similar evidence to conclude that the utility did not carry its burden).

² $10\% \div 14.02\% = 71.3\%$.

based on the percentage increase in spending on DSIC-eligible plant in the modified LTIP is equally flawed. Id. at 28-29.

The OCA also notes that the ALJ states that the Company would fail to recover \$14 million under her proposed DSIC cap versus \$15 million under the existing 5 percent DSIC cap. R.D. at 29. The ALJ incorrectly states the result of the cap. The Company will not “fail to recover” \$14 or \$15 million. Rather, in the next base rate case, the depreciated original cost of all plant investment will be included in rate base and the Company will realize the return of and the return on its investment.³ 66 Pa. C.S. § 1358(b). The only amount the utility may fail to recover if the DSIC cap remains at 5 percent is the depreciation and return on incremental plant investment above the 5 percent DSIC cap and only until new base rates go into effect.

For all of these reasons, the OCA submits that the statutory 5 percent DSIC cap should be maintained.

B. No Retroactive Recovery.

On page 29 of the Recommended Decision, the ALJ states that if the DSIC cap is increased to 6.89 percent, residential heating gas customers’ bills will have an added \$0.91 per month from July 2016 to the end of the term of the LTIP. Also, on page 28, she states that “An undercollection recovery charge would need to be implemented for monies that were undercollected because of the capped DSIC at 5%.” To the extent the ALJ is recommending that the Commission’s approval of an increase to the DSIC cap in this proceeding should be retroactive, the OCA objects. There is no provision in Act 11 that supports retroactive waiver of


³ Earlier in the Recommended Decision, the ALJ recognizes that “what is not recovered through any capped DSIC rate can be recovered through the means of a base rate case.” R.D. at 28.

the DSIC cap, nor did UGI-PNG request that the waiver be applied retroactively. 66 Pa. C.S. § 1358(a)(1); PNG St. 1 at 11-12; PNG Exh. WJM-2; R.D. at 3.

III. CONCLUSION

For the reasons set forth above, and in the OCA's Main and Reply Briefs, the OCA respectfully submits that the ALJ erred in her recommendation to approve UGI-PNG's proposed waiver petition. The OCA submits that the Company did not meet the statutory standard by showing that waiver is necessary. UGI-PNG should file a base rate case and utilize the fully forecasted future test year mechanism before the Commission determines whether to waive the 5 percent cap. Finally, the OCA submits that the proposed tariff supplement accompanying UGI-PNG's Petition should be rejected, consistent with the OCA's recommendations.

Respectfully Submitted,



Erin L. Gannon
Senior Assistant Consumer Advocate
PA Attorney ID No. 83487
Email: EGannon@paoca.org

Counsel for:
Tanya J. McCloskey
Acting Consumer Advocate

Office of Consumer Advocate
555 Walnut Street, 5th Floor
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
Fax: (717) 783-7152

Dated: January 4, 2017

227718