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May 18, 2017

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 Utilities, Inc. - Gas Division for Approval of a Distribution System
Improvement Charge - Docket No. P-2013-2398833**

**Office of Consumer Advocate v. UGI Utilities, Inc. - Gas Division
Docket No. C-2016-2540745**

Dear Secretary Chiavetta:

Enclosed for filing is the Joint Petition for Settlement of all Issues 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: Honorable Conrad A. Johnson
Certificate of Service

CERTIFICATE OF SERVICE

**UGI Utilities, Inc. – Gas Division
(Docket Nos. P-2013-2398833 & C-2016-2540745)**

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 E-MAIL & FIRST CLASS MAIL

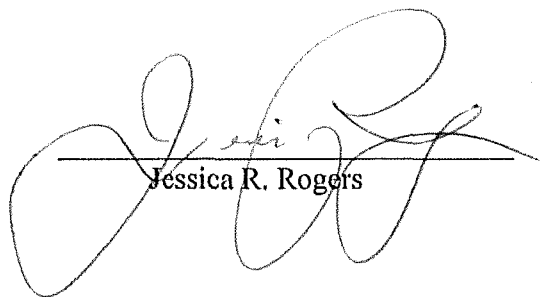
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Date: May 18, 2017



Jessica R. Rogers

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of UGI Utilities, Inc. – Gas Division	:	
For Approval of a Distribution System	:	P-2013-2398833
Improvement Charge	:	
	:	
Office of Consumer Advocate	:	
	:	
v.	:	C-2016-2540745
	:	
UGI Utilities, Inc. – Gas Division	:	

JOINT PETITION FOR SETTLEMENT OF ALL ISSUES

TO ADMINISTRATIVE LAW JUDGE CONRAD A. JOHNSON:

I. INTRODUCTION

UGI Utilities, Inc. – Gas Division (“UGI-GD” or the “Company”), the Office of Consumer Advocate (“OCA”), and the UGI Industrial Intervenors (“UGIII”),¹ collectively referred to as the “Parties” herein, hereby join in this “Joint Petition for Settlement of All Issues” (“Joint Petition for Settlement”) in the above captioned Distribution System Improvement Charge (“DSIC”) proceeding. The Parties respectfully request that Administrative Law Judge Conrad A. Johnson (the “ALJ”) and the Pennsylvania Public Utility Commission (“Commission”) approve this Joint Petition for Settlement.

II. BACKGROUND

1. UGI-GD is a corporation organized and existing under the laws of the Commonwealth of Pennsylvania. UGI-GD is engaged in the business of selling and distributing

¹ The Office of Small Business Advocate (“OSBA”) and the Commission’s Bureau of Investigation and Enforcement (“I&E”) indicated that they do not oppose the Joint Petition for Settlement.

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-GD provides natural gas service to approximately 379,000 customers in and around Eastern and Central Pennsylvania, pursuant to certificates of public convenience granted by the Commission. Its system contains approximately 5,599 miles of natural gas distribution mains and 122 miles of natural gas transmission mains as of December 31, 2015. (UGI-GD Petition, pp. 1-2).

2. On December 12, 2013, UGI-GD filed a *Petition for Approval of its Long Term Infrastructure Improvement Plan* (“LTIIIP Petition”) pursuant to Section 1352 of the Public Utility Code, 66 Pa. C.S. § 1352. The Company’s LTIIIP included the following seven major elements:

- (a) Types and age of eligible property;
- (b) Schedule for its planned repair and replacement;
- (c) Location of the eligible property;
- (d) Reasonable estimate of the quantity of property to be improved;
- (e) Projected annual expenditures and measures to ensure that plan is cost effective;
- (f) Manner in which replacement of aging infrastructure will be accelerated and how repair, improvement or replacement will maintain safe and reliable service; and
- (g) A workforce management and training program.

UGI-GD’s LTIIIP Petition described the Company’s plans to replace all of its cast iron pipelines over a 13-year period ending in February 2027, and to replace all bare steel and wrought iron pipelines over a 28-year period ending September 2041. In addition to its mains, UGI-GD identified other infrastructure repair and replacement that the Company would address in the five year period covered by the LTIIIP.

3. On January 2, 2014, the OCA filed Comments to the LTIIIP Petition.

4. On January 17, 2014, the OSBA filed a Notice of Intervention, Notice of Appearance and Public Statement to the LTIIP Petition.

5. By Order entered July 31, 2014, the Commission approved UGI-GD's LTIIP Petition.

6. On February 29, 2016, UGI-GD filed its *Petition to Modify the Long Term Infrastructure Improvement Plan* ("Modified LTIIP"). The Modified LTIIP significantly increased the capital spending associated with DSIC-eligible projects. The Modified LTIIP increased spending on projects addressing system pressures to higher volume demand areas, regulator station improvements and installations, corrosion control and weatherization of facilities, and Pennsylvania Department of Transportation mandated facility relocations.

7. On March 31, 2016, UGI-GD filed its *Petition of UGI Utilities Inc. – Gas Division for Approval of a Distribution System Improvement Charge* ("DSIC Petition") with the Commission at Docket No. P-2013-2398833. The DSIC Petition sought approval for a DSIC pursuant to 66 Pa. C.S. § 1353. The DSIC Petition included the requirements identified in Section 1353, which are as follows:

- (a) An initial tariff that complies with the model tariff adopted by the Commission, which will include:
 - (i) A description of eligible property;
 - (ii) The effective date of the DSIC;
 - (iii) Computation of the DSIC;
 - (iv) The method for quarterly updates of the DSIC; and
 - (v) A description of consumer protections.
- (b) Testimony, affidavits, exhibits, and other supporting evidence demonstrating that the DSIC is in the public interest;
- (c) An LTIIP, as described in Section 1352; and

- (d) Certification that a base rate case has been filed within five years prior to the filing of the DSIC petition.

The Company's DSIC Petition specifically addressed each of the elements listed in the statute.

8. On April 19, 2016, OCA filed a Formal Complaint, Answer, and a Notice of Intervention and Public Statement to the DSIC Petition.

9. On April 20, 2016, OSBA filed a Notice of Intervention and Notice of Appearance.

10. On May 6, 2016, I&E filed a Notice of Appearance.

11. On May 9, 2016, UGIII filed a Petition to Intervene and Answer to the Petition.

12. On June 30, 2016, the Commission issued an Order approving the Modified LTIP.

13. On November 9, 2016, the Commission approved the Company's DSIC Petition, allowing the DSIC to go into effect on January 1, 2017. The Commission also granted UGIII's Petition to Intervene.

14. In its November 9 Order, the Commission set aside for hearing a single issue raised by UGIII regarding the application of the DSIC to competitive customers. Specifically, on page 22 of the Commission's Order, it stated:

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

- a. Whether or not customers receiving service under specific Rate Schedules should be exempt from the DSIC.

(November 9 Order, p. 22.)

15. In addition to the issue identified by the Commission in its November 9 Order, OCA notified UGI-GD that it would propose to include tax issues that had become relevant in light of the passage of Act 40, 66 Pa.C.S. § 1301.1 (2016). Specifically, OCA seeks clarification

on the impact of Act 40 on the calculation of taxes as part of the DSIC charge, and whether Act 40 alters the reflection of accumulated deferred income tax and the state tax gross-up.

16. On December 22, 2016, UGI filed its *Initial DSIC Compliance Filing: Supplement No. 3 to Tariff Gas – Pa. P.U.C. No. 6* (“UGI Gas Tariff”) to be effective on ten days’ notice consistent with the Commission November 9 Order. The Company’s DSIC became effective on January 1, 2017, at an initial rate of 0.0%.

17. On January 13, 2017, UGI-GD filed a *Petition for Rescission* regarding the requirement that UGI-GD file a separate report each year on jobs created by the DSIC. *See* Order, Paragraph 6, page 23. The *Petition for Rescission* is currently pending before the Commission.

18. On March 29, 2017, the Commission issued a prehearing conference notice, assigning the DSIC Petition proceeding to Administrative Law Judge Conrad A. Johnson. On March 31, 2017, Judge Johnson issued a Prehearing Conference Order.

19. An initial prehearing conference was held on April 18, 2017, before Judge Johnson. The Parties who participated in the prehearing conference filed prehearing memoranda identifying potential issues and witnesses. A litigation schedule was established at the initial prehearing conference.

20. After evaluation of the remaining issues, the Parties were able to reach a Settlement in Principle of all issues. The Settlement agreed to, or not objected to, by all of the active parties to this proceeding is as follows:

III. SETTLEMENT TERMS

A. EXEMPTION OF CUSTOMERS FROM THE DSIC

21. UGI-GD’s DSIC rider provides that “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.” *See* UGI Gas Tariff (filed December 22, 2016).

22. Pursuant to the UGI Tariff Gas – Pa. P.U.C. No. 6, Supplement 3, the Company agrees to exclude UGIII members AcelorMittal Steelton, LLC, Carpenter Technology Corporation, East Penn Manufacturing Company, and Lehigh Heavy Forge Corporation, from the DSIC upon the effective date of the DSIC tariff filing (*i.e.*, January 1, 2017). These customers currently meet the tariff requirements for reduction or elimination of the DSIC. The aforementioned UGIII members will continue to be excluded from the DSIC as long as they meet the conditions for exemption under the UGI Gas Tariff.

B. APPLICATION OF ACT 40 TO UGI-GD’s DSIC

23. Issues regarding the impact of 66 Pa.C.S. § 1301.1 on the treatment of federal and state income tax deductions in calculating the DSIC charge are currently being litigated before the Commission. *See Petition of Metropolitan Edison Co., et. al., for Approval of a DSIC*, Docket Nos. P-2015-2508942, P-2015-2508936, P-2015-2508931, and P-2015-2508948. The parties agree that in subsequent DSIC filings, UGI-GD will follow Commission directives regarding whether to exclude or include Accumulated Deferred Income Taxes (“ADIT”) and whether or not to adjust the state income tax rate to flow through state income tax deductions and credits in the DSIC calculation.

24. Any other terms or provisions of the UGI-GD DSIC mechanism which are not specifically modified by the Joint Petition for Settlement will be implemented consistent with the DSIC Petition filed by UGI-GD at Docket No. P-2013-2398833 on March 31, 2016 as approved or modified by the Commission in its November 9 Order.

IV. CONDITIONS OF SETTLEMENT

25. The Joint Petition for Settlement is conditioned upon the Commission's approval of the terms and conditions contained in this Joint Petition for Settlement without modification. If the Commission modifies the Joint Petition for Settlement, any Party may elect to withdraw from the Joint Petition for Settlement and may proceed with litigation and, in such event, this Joint Petition for Settlement shall be void and of no effect. Such election to withdraw must be made in writing, filed with the Secretary of the Commission and served upon all Parties within five (5) business days after the entry of an Order modifying the Joint Petition for Settlement.

26. This Joint Petition for Settlement is proposed by the Parties to settle all issues in the instant proceeding. If the Commission does not approve the Joint Petition for Settlement and the proceeding continues, the Parties reserve their respective procedural rights to briefing, and to argue their respective positions. The Joint Petition for Settlement is made without any admission against, or prejudice to, any position that any Party may adopt in the event of any subsequent litigation of this proceeding, or in any other proceeding.

27. This Joint Petition for Settlement may not be cited as precedent in any future proceeding, except to the extent required to implement the Joint Petition for Settlement.

28. This Joint Petition for Settlement is being presented only in the context of this proceeding in an effort to resolve all issues identified in the proceeding in a manner which is fair and reasonable. The Joint Petition for Settlement is the product of compromise. This Joint Petition for Settlement is presented without prejudice to any position which any of the parties may have advanced and without prejudice to the position any of the parties may advance in the future on the merits of the issues in future proceedings except to the extent necessary to effectuate the terms and conditions of this Joint Petition for Settlement.

29. The Parties acknowledge and agree that this Joint Petition for Settlement shall have the same force and effect as if the Parties had fully litigated this proceeding.

30. Attached as Appendices “A”, “B” and “C” are Statements of Support submitted by UGI-GD, OCA, and UGIII which set forth the bases upon which they believe the Joint Petition for Settlement is in the public interest. Appendices “D” and “E” are the Statements of Non-Opposition to the Settlement of OSBA and I&E.

31. If the ALJ adopts the Joint Petition for Settlement without modification, the Parties waive their rights to file Exceptions.

V. CONCLUSION

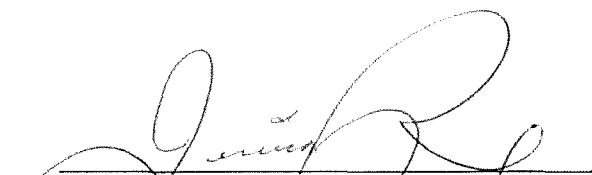
WHEREFORE, the Parties, by their respective counsel, respectfully request as follows:

1. That Administrative Law Judge Conrad A. Johnson and the Pennsylvania Public Utility Commission approve this Joint Petition for Settlement, including all terms and conditions thereof.

2. That the Commission enter a final Order, consistent with this Joint Petition for Settlement, that: (a) UGIII members AcelorMittal Steelton, LLC, Carpenter Technology Corporation, East Penn Manufacturing Company, and Lehigh Heavy Forge Corporation are excluded from the DSIC upon the effective date of the DSIC tariff filing and for as long as they meet the conditions for exemption under the UGI Gas Tariff; and (b) that UGI-GD will adopt tax treatment of Act 40 consistent with a final merits decision in *Petition of Metropolitan Edison Co., et. al., for Approval of a DSIC*, at Docket Nos. P-2015-2508942, P-2015-2508936, P-2015-2508931, and P-2015-2508948.

3. That the Commission terminate and mark closed its inquiry and investigation at Docket Nos. P-2013-2398833 and mark the associated Complaint of the OCA at Docket No. C-2016-2540745 as satisfied and closed.

Respectfully submitted,




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Date: May 17, 2017

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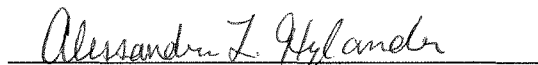
For UGI Utilities, Inc. – Gas Division



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For Office of Consumer Advocate



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Date: May 18, 2017

For UGI Industrial Intervenors

Appendix “A”

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of UGI Utilities, Inc. – Gas Division	:	
For Approval of a Distribution System	:	P-2013-2398833
Improvement Charge	:	
	:	
Office of Consumer Advocate	:	
	:	
v.	:	C-2016-2540745
	:	
UGI Utilities, Inc. – Gas Division	:	

**UGI UTILITIES INC. – GAS DIVISION
STATEMENT IN SUPPORT OF SETTLEMENT**

UGI Utilities, Inc. – Gas Division (“UGI-GD” or the “Company”) submits this Statement in Support of the “Joint Petition for Settlement of All Issues” (“Joint Petition for Settlement”) in the above-captioned proceeding. Signatories to the Joint Petition for Settlement are UGI-GD, the Office of Consumer Advocate (“OCA”), and the UGI Industrial Intervenors (“UGIII”), parties to the above-captioned proceeding (hereinafter collectively referred to as the “Parties”).¹

On March 31, 2016, UGI-GD filed its “*Petition of of UGI Utilities Inc. – Gas Division for Approval of a Distribution System Improvement Charge*” (“DSIC Petition”). On November 9, 2016, the Pennsylvania Public Utility Commission (“Commission”) issued an Order in the above-captioned proceeding addressing the DSIC Petition (“November 9 Order”) which allowed UGI-GD’s DSIC to become effective on January 1, 2017, subject to reconciliation based on the final outcome of an issue which UGIII had raised. The Commission assigned the following issue to the Office of Administrative Law Judge for hearing and determination:

¹ The Office of Small Business Advocate (“OSBA”) and the Commission’s Bureau of Investigation and Enforcement (“I&E”) indicated that they do not oppose the Joint Petition for Settlement.

- a. Whether or not customers receiving service under specific Rate Schedules should be exempt from the DSIC.

(November 9 Order, p. 22.) The Joint Petition for Settlement resolves the issue identified in the November 9 Order in a way that is consistent with the standards set forth in the Public Utility Code and is in the public interest. In addition to the issue identified in the November 9 Order, the OCA sought to address in this proceeding questions relating to the impact of Act 40 on the calculation of the UGI-GD DSIC. The Joint Petition for Settlement addresses the OCA's issue, as well.

Any other terms or provisions of the UGI-GD DSIC mechanism which were not subject to litigation, or specifically modified by the Joint Petition for Settlement, will be implemented consistent with the DSIC Petition as it was filed on March 31, 2016, or as modified by the Commission in its November 9 Order.

Settlement was achieved in this proceeding after an investigation of the issue identified by the Commission in its Order and discussion among the Parties. UGI-GD submits that the Joint Petition for Settlement fairly balances the interests of the Company and its customers and, therefore, is in the public interest. UGI-GD respectfully requests that Administrative Law Judge Conrad A. Johnson (the "ALJ") and the Commission approve the Joint Petition for Settlement in its entirety, without modification.

For the reasons set forth below, the Joint Petition for Settlement is just and reasonable and should be approved.

I. SETTLEMENT

A. Exemption of Customers from the DSIC

As part of its DSIC Petition, UGI-GD included language that provided it with the flexibility to exclude certain competitively situated customers from the DSIC, if it believed it

was reasonably necessary to do so. UGI-GD's DSIC rider provides that "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." See UGI Gas Tariff (filed December 22, 2016). This language is consistent with the Commission's directives in *Implementation of Act 11 of 2012*, Docket No. M-2012-2293611 (Order entered Aug. 2, 2012) ("Final Implementation Order"), and with the Commission's Orders in other prior DSIC proceedings. See, e.g., *Petition of Columbia Gas of Pennsylvania, Inc. for Approval of a Distribution System Improvement Charge*, Docket No. P-2012-2338282 (Order entered May 22, 2014).

As part of the settlement of this proceeding, UGI-GD has agreed that it will exclude UGIII members AcelorMittal Steelton, LLC, Carpenter Technology Corporation, East Penn Manufacturing Company, and Lehigh Heavy Forge Corporation, from the DSIC upon the effective date of the DSIC tariff filing (*i.e.*, January 1, 2017). These customers currently meet the tariff requirements for reduction or elimination of the DSIC, and therefore this exclusion is consistent with the language in UGI Tariff Gas – Pa. P.U.C. No. 6, Supplement 3. The identified members of UGIII will continue to be excluded from the DSIC as long as they meet the conditions for exemption under the UGI Gas Tariff.

This settlement provision is in the public interest because it adequately addresses the concerns of competitively situated customers, while balancing the interest of the public in having as many customers on the system as possible contribute to DSIC related expenditures. As the Commission indicated in its *Final Implementation Order*, for customers with competitive alternatives who are being charged negotiated or contract rates, the utility is often already

charging the maximum amount that the customer will agree to pay before that customer seeks to exercise its competitive alternatives. *See, e.g., Final Implementation Order*, at p. 44. The Commission has recognized that the loss of competitive customers would be detrimental to the utility and its smaller business and residential customers, and that the utility therefore needs the ability to eliminate or reduce the DSIC charge in order to maintain its large industrial customers.

Specifically, the Commission stated:

Where the customer has negotiated rates based on competitive alternatives, it would be contrary to the contract terms and counterproductive in the long term to add costs that may induce the customer to leave the system and provide no support for infrastructure costs.

Final Implementation Order, p. 46. Consistent with the Commission's Final Implementation Order, UGI-GD's tariff provides for the flexibility to determine whether individual competitive customers are in such a position as to be excluded from the DSIC.

In light of the Commission's directives in its November 9 Order, UGI-GD and UGIII discussed the possibility of addressing UGIII's concerns within the scope of the Company's existing tariff provisions. In reviewing the positions of each of the UGIII members identified in the Joint Petition for Settlement, the Company was able to determine that each of those customers met the criteria established in the Company's tariff. Consistent with its tariff provisions, UGI-GD offered to eliminate the DSIC as to each of the qualifying customers, which effectuates the Commission's intent in its *Final Implementation Order*.

The effective date of January 1, 2017, identified in the Joint Petition for Settlement coincides with the initial effective date of the Company's DSIC. Since the UGI-GD DSIC became effective, the Company's DSIC has been at 0.0%. The January 1, 2017, effective date is consistent with the Commission's November 9 Order implementing the DSIC subject to

reconciliation and refund, because it will ensure that the outcome of this proceeding will reach back to the date the Company's DSIC first became effective.

For the reasons stated herein, the resolution of the issue identified in the Commission's November 9 Order is in the public interest, and should be approved by the ALJ and Commission.

B. Application of Act 40 to UGI-GD's DSIC

In addition to the UGIII issue identified by the Commission in its November 9 Order, OCA and UGI-GD have mutually agreed to address certain tax issues that became relevant in light of the passage of Act 40, 66 Pa.C.S. § 1301.1 (2016). OCA sought to clarify the impact of Act 40 on the calculation of taxes as part of the DSIC charge, and whether Act 40 alters the reflection of accumulated deferred income tax and the state tax gross-up. Act 40 took effect on August 12, 2016, and provides as follows:

If an expense or investment is allowed to be included in a public utility's rates for ratemaking purposes, the related income tax deductions and credits shall also be included in the computation of current or deferred income tax expense to reduce rates.

The Company did not address Act 40 in its Petition because the statute was not yet effective at the time the Petition was filed. However, Act 40 became effective while the Petition was pending before the Commission. Further, the question of whether the DSIC calculation is impacted by Act 40 is currently being addressed in *Petition of Metropolitan Edison Co., et. al., for Approval of a DSIC*, at Docket Nos. P-2015-2508942, P-2015-2508936, P-2015-2508931, and P-2015-2508948 ("Act 40 Proceeding").

The parties have agreed that because issues regarding the impact of Act 40 on the treatment of federal and state income tax deductions in calculating the DSIC charge are currently being litigated before the Commission, in subsequent DSIC filings, UGI-GD will follow Commission directives regarding whether to exclude or include Accumulated Deferred Income

Taxes ("ADIT") and whether or not to adjust the state income tax rate to flow through state income tax deductions and credits in the DSIC calculation.

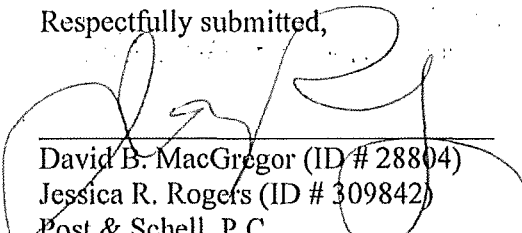
This settlement provision is in the public interest because it maximizes administrative efficiency and judicial economy. It allows UGI-GD and the other parties to avoid future additional litigation on an issue that will have already been addressed by the Commission. Therefore, it serves the public interest for UGI-GD to agree that it will modify its DSIC calculation in accordance with the Commission's directives in the Act 40 Proceeding, once a Final Order has been entered.

II. CONCLUSION

The Joint Petition for Settlement resolves all issues raised during this proceeding. For the reasons explained above, and those set forth in the Joint Petition for Settlement, the resolution of this proceeding in accordance with the terms of the Joint Petition for Settlement is in the public interest. The Joint Petition for Settlement should be approved without modification.

Respectfully submitted,

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Post & Schell, P.C.

Attorneys for UGI Utilities, Inc. – Gas Division

Date: May 18, 2017

Appendix “B”

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of UGI Utilities, Inc. – Gas Division	:	
For Approval of a Distribution System	:	P-2013-2398833
Improvement Charge	:	
	:	
Office of Consumer Advocate	:	
	:	
v.	:	C-2016-2540745
	:	
UGI Utilities, Inc. – Gas Division	:	

OCA STATEMENT IN SUPPORT OF
JOINT PETITION FOR SETTLEMENT OF ALL ISSUES

The Office of Consumer Advocate (OCA), one of the signatory parties to the Joint Petition for Settlement of All Issues (Settlement) respectfully requests that the terms and conditions of the Settlement be approved by the Pennsylvania Public Utility Commission (Commission). This request is based upon the OCA's conclusion that the proposed Settlement is in the public interest and is in the interest of the customers of UGI Utilities, Inc. – Gas Division (UGI-GD or Company).

I. INTRODUCTION

1. On December 12, 2013, UGI-GD filed a Petition for Approval of an initial Long-Term Infrastructure Improvement Plan (LTIIP). The OCA filed comments on the proposed LTIIP on January 2, 2014. By Order entered July 31, 2014, the Commission approved UGI-GD's LTIIP Petition. On February 29, 2016, UGI-GD filed a Petition to Modify the Long Term Infrastructure Improvement Plan (Modified LTIIP). On March 31, 2016, the Company filed a Petition for approval of its initial Distribution System Improvement Charge (DSIC). On April

19, 2016, OCA filed a Formal Complaint, Answer, and a Notice of Intervention and Public Statement to the DSIC Petition. The OCA raised two issues in its Answer: whether gathering lines and storage lines should be treated as “distribution system” property for purposes of DSIC recovery and that costs proposed for recovery under the category “other capitalized costs” should be reviewed to determine that the projects are consistent with Act 11 and the Commission’s Final Implementation Order.

The Commission issued an Order approving the Modified LTIP on June 30, 2016. On November 9, 2016, the Commission entered an Order approving the Company’s DSIC petition, subject to refund, allowing the DSIC to go into effect on January 1, 2017. The Commission disposed of the OCA’s issues consistent with its approval of settlement agreements addressing those matters in the UGI Central Penn Gas, Inc. (UGI-CPG) and UGI Penn Natural Gas, Inc. (UGI-PNG) proceedings at Docket Nos. P-2013-2398835 and P-2013-2397056.¹ The Commission referred an issue raised by the UGI Industrial Intervenors (UGIII) to the Office of Administrative Law Judge for resolution: whether or not customers receiving service under specific Rate Schedules should be exempt from the DSIC.

In addition, the OCA raised tax issues that had become relevant in light of the passage of Act 40, 66 Pa.C.S. § 1301.1 (2016). The statute took effect on August 12, 2016 and states that it shall apply to all cases where the final order is entered after its effective date. Specifically, the OCA sought clarification on the impact of Act 40 on the calculation of federal and state income tax credits and deductions as part of the DSIC charge.

¹ There, the parties agreed that UGI-CPG and UGI-PNG could include eligible gathering lines and storage lines that serve a distribution function in the DSIC at such time when the companies actually install or acquire such facilities. The parties also agreed that UGI-CPG and UGI-PNG could recover through the DSIC “other related capitalized costs” including, but not limited to, regulator stations and equipment, electronic systems and software, vehicles, tools and power equipment. The parties specifically excluded costs associated with the Smallworld Geographic Information System. DSIC Petition of UGI-CPG, R.D. at 8 (June 8, 2015); DSIC Petition of UGI-PNG, R.D. at 8-9 (June 8, 2015).

The proceeding was assigned to Administrative Law Judge Conrad A. Johnson (ALJ). On March 31, 2017, Judge Johnson issued a Prehearing Conference Order. The parties participated in discovery and settlement discussions and the Company, OCA and UGIII reached a settlement agreement addressing all pending issues.²

The OCA submits this Statement in Support to provide its views on why the proposed Settlement is in the public interest and should be approved.

II. TERMS AND CONDITIONS OF JOINT PETITION FOR SETTLEMENT

The terms of the proposed Settlement address the application of the DSIC to competitive customers and the impact of Act 40 on the calculation of tax credits and deductions in the DSIC:

Settlement ¶ A.21-22: Application of the DSIC to All Customers

UGIII raised an issue regarding whether UGI-GD's DSIC rate should be applied to several UGIII members that are currently paying a flexed or discounted rate or a negotiated contracts with the Company. Settlement ¶ A.22. The Company's DSIC rider provides that "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." See UGI Gas Tariff (filed Dec. 22, 2016). According to UGI-GD, these customers currently meet the tariff requirements for reduction or elimination of the DSIC because they are paying a flexed/discounted rate or have a negotiated contract with the Company and UGI-GD has determined that it is reasonably necessary to eliminate the Rider DSIC. Settlement ¶ A.22.

² The Office of Small Business Advocate and Bureau of Investigation & Enforcement do not oppose the Settlement.

The OCA also submits that the proposed tariff and settlement language are consistent with the Commission's Final Implementation Order, which provides:

Act 11 does not overturn the existing requirements of recovery based on cost-causation and non-discrimination, and that utilities should have the flexibility to not apply the DSIC surcharge to customers with competitive alternatives and customers having negotiated contracts from the utility. Where the customer has negotiated rates based on competitive alternatives, it would be contrary to the contract terms and counterproductive in the long term to add costs that may induce the customer to leave the system and provide no support for infrastructure costs.

In re: Implementation of Act 11 of 2012, Docket No. M-2012-2293611, Final Implementation Order at 46 (Aug. 2, 2012). The Settlement provides that if, going-forward, the tariff conditions for exemption are not met, UGI-GD will apply the DSIC rate to those customers. This is consistent with Act 11's requirement and the Commission's Model Tariff, which provide that the DSIC "shall be applied equally to all customer classes." 66 Pa. C.S. § 1358(d)(1); Final Implementation Order, App. A at 8.

Settlement ¶A.23: Federal and State Income Tax Deductions Generated by DSIC Investment

Act 40 took effect on August 11, 2016. 66 Pa. C.S. § 1301.1. The statute provides:

If an expense or investment is allowed to be included in a public utility's rates for ratemaking purposes, the related income tax deductions and credits shall also be included in the computation of current or deferred income tax expense to reduce rates.

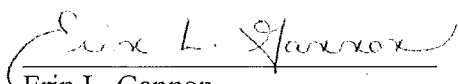
Id. (emphasis added). Because a final order in this proceeding will be entered after the effective date of Act 40, the OCA recommended that federal and state income tax deductions generated by DSIC investment should be reflected in UGI-GD's DSIC calculations. As noted in the Settlement, the impact of Act 40 on the treatment of federal and state income tax deductions in the DSIC calculation has been raised in the FirstEnergy Companies' consolidated DSIC

proceeding at Docket Nos. P-2015-2508942, P-2015-2508936, P-2015-2508931 and P-2015-2508948. Rather than litigate the issue again here, the Settlement provides that UGI-GD will follow the Commission's directives regarding the effect of Act 40 on the DSIC calculation. The OCA submits that it is in the interest of all parties, the Commission and the public to reduce or avoid litigation of this legal question. Thus, OCA submits that Paragraph 23 of the Settlement should be approved.

III. CONCLUSION

The Settlement effectively resolves the issues that the Office of Consumer Advocate raised and considered in response to the initial DSIC Petition filed by UGI Utilities, Inc. – Gas Division. For the foregoing reasons, the Office of Consumer Advocate submits that the terms and conditions of the Settlement are in the public interest and should be approved.

Respectfully Submitted,



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
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Phone: (717) 783-5048
Fax: (717) 783-7152

Dated: May 17, 2017

233171

Appendix “C”

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of UGI Utilities, Inc. – Gas Division	:	
For Approval of a Distribution System	:	P-2013-2398833
Improvement Charge	:	
	:	
Office of Consumer Advocate	:	
v.	:	C-2016-2540745
UGI Utilities, Inc. – Gas Division	:	

**STATEMENT IN SUPPORT OF
THE UGI INDUSTRIAL INTERVENORS**

The UGI Industrial Intervenors ("UGIII") by and through its counsel, submit this Statement in Support ("Statement") of the Joint Petition for Settlement of All Issues ("Joint Petition" or "Settlement"), filed in the above-captioned proceeding with the Pennsylvania Public Utility Commission ("PUC" or "Commission"). This Joint Petition reflects settlement with respect to UGI Utilities, Inc. – Gas Division's ("UGI-GD") Petition for Approval of a Distribution System Improvement Charge ("DSIC Petition").

As a result of settlement discussions, UGI-GD, UGIII and the Office of Consumer Advocate ("OCA") (collectively, "Joint Petitioners") have agreed upon the terms embodied in the foregoing Joint Petition.¹ UGIII offers this Statement to further demonstrate that the Settlement is in the public interest and should be approved without modification.

I. INTRODUCTION

1. On March 31, 2016, UGI-GD filed with the Commission the above-captioned DSIC Petition requesting approval to establish and implement a Distribution System Improvement

¹ As indicated in Footnote 1 of the Joint Petition, the Office of Small Business Advocate ("OSBA") and the Bureau of Investigation and Enforcement ("I&E") have indicated that they do not oppose the Joint Petition.

Charge ("DSIC") Rider to its gas tariff. The DSIC Rider would become effective by January 1, 2017.

2. On May 9, 2016, UGIII filed with the PUC a Petition to Intervene and Answer in response to UGI-GD's DSIC Petition.

3. On November 9, 2016, the Commission granted UGIII's Petition to Intervene.

4. On that same date, the Commission approved UGI-GD's DSIC Petition permitting the initial DSIC rate of 0.0% to go into effect on January 1, 2017, and assigned to the Office of Administrative Law Judge ("OALJ") for hearing and a Recommended Decision ("RD") the single issue raised by UGIII concerning the application of the DSIC to competitive customers.

5. The PUC assigned this proceeding to Administrative Law Judge ("ALJ") Conrad A. Johnson, and ALJ Johnson scheduled an initial Prehearing Conference for April 18, 2017.

6. The parties proceeded to conduct settlement discussions, and on April 18, 2017, the Joint Petitioners informed the ALJ that a tentative settlement in principle had been reached.

II. STATEMENT IN SUPPORT

7. The Commission has a strong policy favoring settlements. As set forth in the PUC's regulations, "[t]he Commission encourages parties to seek negotiated settlements of contested proceedings in lieu of incurring the time, expense and uncertainty of litigation." 52 Pa. Code § 69.391(a); *see also* 52 Pa. Code § 5.231. Consistent with the Commission's policy, the Joint Petitioners engaged in negotiations to resolve the issues raised in this proceeding. These ongoing discussions produced the foregoing Settlement.

8. The Joint Petitioners agree that approval of the proposed Settlement is in the best interests of the parties involved.

9. The Joint Petition is in the public interest for the following reasons:

- a. As a result of the Joint Petition, expenses incurred by the Joint Petitioners and the Commission for completing this proceeding will be less than they would have been if the proceeding had been fully litigated;
- b. Uncertainties regarding further expenses associated with possible appeals from a final order of the Commission regarding the issues in this Settlement are avoided as a result of the Joint Petition; and
- c. The Joint Petition reflects compromises on all sides presented without prejudice to any position any Joint Petitioner may have advanced so far in this proceeding. Similarly, the Joint Petition is presented without prejudice to any position any party may advance in future proceedings involving UGI-GD.

10. In addition, the Joint Petition specifically satisfies the concerns of UGIII in the following ways:

- a. Provides that UGI-GD may reduce or eliminate the DSIC Rider to any customer with competitive alternatives who is paying flexed or discounted rates, and to any customer that has a negotiated contract with UGI-GD;² and
- b. Excludes the following UGIII members from the DSIC upon the effective date of the DSIC tariff filing (*i.e.*, January 1, 2017): (1) AcelorMittal Steelton, LLC; (2) Carpenter Technology Corporation; (3) East Penn Manufacturing Company; and (4) Lehigh Heavy Forge Corporation.³ Additionally, these UGIII members will continue to be excluded from the DSIC as long as they meet the conditions for exemption under UGI-GD's gas tariff.⁴

11. UGIII supports the Joint Petition because it is in the public interest; however, in the event the Joint Petition is rejected by the ALJ or the Commission, UGIII will resume its litigation position.

12. As set forth above, UGIII submits that the Settlement is in the public interest and adheres to Commission policies promoting negotiated settlements. The Settlement was achieved after several settlement discussions. Although the Joint Petitioners have invested time and resources in the negotiation of the Joint Petition, this process has allowed the parties, and the

² Joint Petition, ¶ 21.

³ *Id.* at ¶ 22.

⁴ *Id.*

Commission, to avoid expending the substantial resources that would have been required to fully litigate the current issues in this proceeding while still reaching a just, reasonable, and non-discriminatory result. The Joint Petitioners have thus reached an amicable solution to this dispute as embodied in the Settlement. Approval of the Settlement will permit the Commission and Joint Petitioners to avoid incurring the additional time, expense and uncertainty of further litigation of the issues in this proceeding. *See* 52 Pa. Code § 69.391.

III. CONCLUSION

WHEREFORE, UGIII respectfully requests that the ALJ and the Commission approve UGI-GD's Joint Petition for Settlement of all issues without modification.

Respectfully submitted,

McNEES WALLACE & NURICK LLC

By Alessandra L. Hylander
Pamela C. Polacek (Pa. I.D. No. 78276)
Vasiliki Karandrikas (Pa. I.D. No. 89711)
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Counsel to the UGI Industrial Intervenors

Dated: May 18, 2017

Appendix “D”



COMMONWEALTH OF PENNSYLVANIA

May 18, 2017

The Honorable Conrad A. Johnson
Administrative Law Judge
Pennsylvania Public Utility Commission
Office of Administrative Law Judge
Piatt Place, Suite 220
301 5th Avenue
Pittsburgh, PA 15222

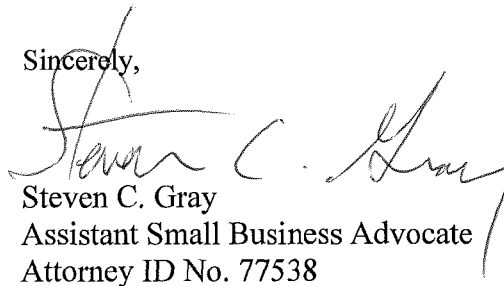
**Re: Petition of UGI Utilities, Inc. – Gas Division for Approval of a Distribution System Improvement Charge
Docket No. P-2013-2398833**

Dear Judge Johnson:

Please be advised that the Office of Small Business Advocate (“OSBA”) is a party to the above referenced proceeding. The OSBA has reviewed the terms and conditions of the Joint Petition for Settlement of All Issues, and does not oppose the Settlement as filed.

If you have any questions, please do not hesitate to contact me.

Sincerely,



Steven C. Gray
Assistant Small Business Advocate
Attorney ID No. 77538

cc: Mr. Robert D. Knecht

Appendix “E”



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE

May 18, 2017

Honorable Conrad A. Johnson
Pennsylvania Public Utility Commission
Office of Administrative Law Judge
301 Fifth Avenue
Suite 220, Piatt Place
Pittsburgh, PA 19107

Re: Petition of UGI Utilities, Inc. – Gas Division for Approval of a
Distribution System Improvement Charge
Docket No. P-2013-2398833

Dear Judge Johnson:

Please be advised that the Bureau of Investigation and Enforcement does not oppose the settlement entered into by UGI Utilities, Inc. – Gas Division, the Office of Consumer Advocate, and the UGI Industrial Intervenors in this proceeding.

Sincerely,

Carrie B. Wright
Prosecutor
Bureau of Investigation and Enforcement
PA Attorney I.D. #208185

cc: Certificate of Service

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of UGI Utilities, Inc.- Gas :
Division for Approval of a Distribution : Docket No. P-2013-2398833
System Improvement Charge :

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing Letter dated May 18, 2017, in the manner and upon the persons listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party):

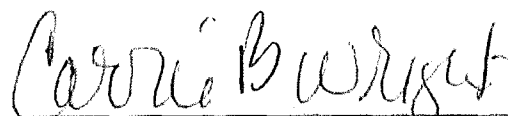
Served via First Class Mail

Jessica R. Rogers, Esquire
David B. MacGregor, Esquire
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Harrisburg, PA 17101-1601

Darryl A. Lawrence, Esquire
Erin L Gannon, Esquire
Office of Consumer Advocate
555 Walnut Street
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Harrisburg, PA 17101-1923

Steven C. Gray, Esquire
Office of Small Business Advocate
300 North Second Street
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Mark C. Morrow, Esquire
Danielle Jouenne, Esquire
UGI Corporation
460 North Gulph Road
King of Prussia, PA 19406



Carrie B. Wright
Prosecutor
Bureau of Investigation and Enforcement
PA Attorney I.D. #208185