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File #: 171080

June 8, 2018

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: Pennsylvania Public Utility Commission v. UGI Utilities, Inc. - Electric Division
Docket No. R-2017-2640058

Dear Secretary Chiavetta:

Enclosed for filing, is the Motion in Limine of UGI Utilities, Inc. – Electric Division to Strike the Testimony of Bureau of Investigation and Enforcement Witness Joseph Kubas, 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 Steven K. Haas
Honorable Andrew M. Calvelli
Certificate of Service

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	Docket Nos. R-2017-2640058
v.	:	
	:	
UGI Utilities, Inc. – Electric Division	:	

**MOTION IN LIMINE OF UGI UTILITIES, INC. – ELECTRIC DIVISION
TO STRIKE THE TESTIMONY OF BUREAU OF INVESTIGATION AND
ENFORCEMENT WITNESS JOSEPH KUBAS**

TO ADMINISTRATIVE LAW JUDGES STEVEN K. HASS AND ANDREW M. CALVELLI:

UGI Utilities, Inc. – Electric Division (“UGI Electric”) files this Motion In Limine to Strike the Testimony of Bureau of Investigation and Enforcement (“I&E”) witness Joseph Kubas (I&E Statement No. 5 and 5-SR), pursuant to 52 Pa. Code §§ 5.103 and 5.571. In support thereof, UGI Electric states as follows:

I. BACKGROUND

1. On January 26, 2018, UGI Electric filed Tariff Electric PA. P.U.C. Nos. 6 and 2-S with the Pennsylvania Public Utility Commission (“Commission”). Tariff Electric – PA. P.U.C. Nos. 6 and 2-S, issued to be effective for service rendered on or after March 27, 2018, propose changes to UGI Electric’s base retail distribution rates, based upon data for a fully projected future test year ending September 30, 2019 (“2018 Base Rate Case”). The filing was made in compliance with the Commission’s regulations at 52 Pa. Code. §§ 51-53.56, and contains all supporting data and testimony required to be submitted in conjunction with a tariff change seeking a general rate increase.

2. On April 26, 2018, I&E filed its Direct Testimony in the 2018 Base Rate Case, including I&E Statement No. 5, the Direct Testimony of Joseph Kubas. A copy of Mr. Kubas's testimony is attached hereto as **Appendix A**.

3. As noted on the cover page of Mr. Kubas's Direct Testimony, the single issue for which Mr. Kubas offered testimony was the Quarterly Earnings Reports ("QER") of UGI Electric. **Appendix A**, p. 1.

4. On May 25, 2018, UGI Electric filed its Rebuttal Testimony. As a precautionary measure, UGI Electric witness Paul J. Szykman provided rebuttal to the testimony of Mr. Kubas as part of his rebuttal testimony. *See* UGI Electric St. No. 1, pp. 2-12. In his testimony, Mr. Szykman noted numerous other Pennsylvania public utilities appear to make the same rate base adjustments in their QERs that are the subject of Mr. Kubas's testimony. UGI Electric St. No. 1-R, pp. 9-10. Mr. Szykman also noted that, to the extent that any modifications to the QER filing requirements were going to be considered, a generic rulemaking proceeding was the necessary and appropriate procedural vehicle to do so. UGI Electric St. No. 1-R, pp. 10-11.

5. On June 7, 2018, I&E filed its Surrebuttal Testimony, including I&E Statement No. 5-SR, the Surrebuttal Testimony of Joseph Kubas. A copy of Mr. Kubas's testimony is attached hereto as **Appendix B**. Mr. Kubas's Surrebuttal Testimony once again focused exclusively on the issue of the calculation of the QER.

6. The entirety of Mr. Kubas's testimony in this proceeding addresses matters that are irrelevant to the 2018 Base Rate Case. Moreover, even if relevant, the issues addressed by Mr. Kubas concern the statewide interpretation and implementation of Pennsylvania Act 11 of 2012 (Act of Feb. 14, 2012, P.L. 72, No. 11), and the Commission's regulations governing QERs. Any modification contemplated in this proceeding would have far reaching industry

consequences, across all regulated utilities. In order to provide due process of law, these issues must be addressed in a generic proceeding in which all Pennsylvania public utilities and other interested and affected parties may participate. As more fully explained below, UGI Electric submits that the testimony of Joseph Kubas should be stricken in this entirety.

II. MOTION TO STRIKE

A. LEGAL STANDARD

7. Section 5.403(a)(1) of the Commission's regulations vests the presiding officer with the power to control the receipt of evidence, including ruling on the admissibility of evidence. 52 Pa. Code § 5.403(a)(1).

8. Pursuant to the Commission's regulations, "written testimony is subject to the same rules of admissibility and cross-examination of the sponsoring witness as if it were presented orally in the usual manner." 52 Pa. code § 5.412(c).

9. As an administrative agency with quasi-judicial functions, the Commission is not constrained by the strict rules governing admissibility of evidence; however, essential legal principles must be observed when ruling on evidentiary issues. *Pittsburg and Lake Erie Railroad Company v. Pa. PUC*, 85 A.2d 646, 653 (Pa Super Ct. 1952); *Bleilevens v. State Civil Service Commission*, 312 A.2d 109, 111 (Pa. Cmwlth. 1973).

10. The Commission's Order of March 1, 2018 at the above captioned docket, suspending this proceeding and setting it for hearing, provides the scope of the proceeding. In that Order, the Commission stated as follows:

1. That an investigation on Commission motion be, and hereby is, instituted to determine the lawfulness, justness, and reasonableness of the rates, rules, and regulations contained in the proposed Tariff Electric PA P.U.C. Nos. 6 and 2S

....

4. That this investigation shall include consideration of the lawfulness, justness, and reasonableness of the UGI Utilities, Inc. - Electric Division's existing rates, rules, and regulations.

Order at p. 2. Thus, the appropriate scope of the 2018 Base Rate Case is all issues that are related to the justness and reasonableness of the Company's proposed rates, rules, and regulations currently reflected in its tariffs, or proposed in the tariffs to be adopted as part of this proceeding.

B. MR. KUBAS'S TESTIMONY IS IRRELEVANT TO THE 2018 BASE RATE CASE.

11. Mr. Kubas unequivocally states: "A base rate case and a QER are two different filings with two different filing requirements." (I&E St. No. 5-SR, p. 7, ln. 1-2). There can be no doubt from this clear statement that Mr. Kubas recognizes that the calculation of the QER is separate and distinct from this base rate proceeding. Further, the concerns Mr. Kubas has raised associated with the calculation of the QER – that it will limit an overearnings investigation, that it will impact the operation of the DSIC (Mr. Kubas acknowledges UGI Electric does not have a DSIC or propose one in this proceeding), and that it will impact the ability of the Commission to compare returns across the industry – all have no relationship to this 1308(d) base rate proceeding.

12. Mr. Kubas's testimony makes no effort to relate the QER to the base rate proceeding. Instead, the exclusive focus of Mr. Kubas's testimony is the content of UGI Electric's QERs – the last of which was filed 9 months ago. Chapter 71 addresses "industry-wide financial reporting requirements designed to improve the Commission's ability to monitor on a regular basis the financial performance and earnings of the electric, gas, telephone, water and wastewater public utilities subject to Commission jurisdiction." 52 Pa. Code § 71.1. Mr.

Kubas is using this case to raise his complaints associated with a 9-month old QER, in an effort to change not just UGI Electric's practices, but those of all other utilities who prepare their QERs on a similar basis.¹ This simply has no relevance to the Company's base rate proceeding.

13. When a public utility elects to file a base rate increase, the filings made by the utility are subject to the requirements of 52 Pa. Code §§ 53.51-53.56. Indeed, the filing requirements applicable to general rate increases in Chapter 53 supplant the filing requirements applicable to QERs. If the Commission intended to subject a public utility to both the reporting requirements of Chapter 71 and Chapter 53 during a general rate investigation, then it would not have included the exemption from Chapter 71 requirements contained in Section 71.4(c). *See* 52 Pa. Code § 71.(4)(c).²

14. Mr. Kubas suggests in his surrebuttal testimony, on pages 22-23, that he does not recognize the relevance of the formal complaint process to the QER. However, pursuant to 52 Pa. Code § 71.7, I&E is served with a copy of every QER filing made by every utility in Pennsylvania. It is readily apparent from a surface review of these QERs that certain utilities are employing a FPFTY in the calculation of the quarterly earnings report. *See* UGI Electric St. No. 1-R, pp. 9-10. I&E has had numerous opportunities to raise the issue of the calculation of the QER in an appropriate legal proceeding by filing a complaint against any of the QERs it is

¹ In addition to UGI Electric, PECO Electric, York Water, Superior Water, Aqua PA and Pennsylvania American Water Company, National Fuel Gas Distribution Company, PECO Gas, Peoples Gas, Peoples Equitable Gas, Peoples TWP, as well as the other UGI distribution utilities: UGI Utilities – Gas Division, UGI Penn Natural Gas, UGI Central Penn Gas all appear to use the FPFTY in their QER. UGI Electric St. No. 1-R, pp. 9-10.

² 52 Pa. Code § 71.(4)(c) provides as follows: A public utility is exempt from the filing requirements of this section when the utility has pending before the Commission a general rate investigation under 66 Pa.C.S. § 1308(d), 1309 or 1310 (relating to voluntary changes in rates; rates fixed on complaint; investigation of costs of production; and temporary rates). The filing of quarterly financial reports is not required, for the quarters inclusive, from the date of filing of the utility's general rate increase or a complaint against the utility's overall level of rates, to the entry date of the Commission's final order. Instead of filing the reports, the public utility shall file a letter with the Secretary for each quarter in which a general rate investigation is pending.

served with every quarter. Instead, Mr. Kubas raises the calculation here, where it bears no relationship to any of the other issues raised in this proceeding. It would be improper, prejudicial, and a denial of due process for the Commission to evaluate and consider a recommendation of statewide applicability without providing all affected parties with notice and an opportunity to be heard.

15. Mr. Kubas's testimony regarding the UGI Electric QERs is irrelevant to the Commission's evaluation of the 2018 Base Rate Case. As Mr. Kubas concedes in his surrebuttal testimony, the Commission's regulations applicable to QERs impose independent requirements upon a public utility to file certain reports with the Commission when the public utility is not subject to a general rate investigation. Those requirements are not applicable during the pendency of a base rate proceeding. *See* 52 Pa. Code § 71.(4)(c). The 2018 Base Rate Case is, instead, governed by the requirements of Chapter 53. Two different statutes, two different regulations, and two different sets of filings requirements. Mr. Kubas has presented no testimony relevant to a 1308(d) base rate proceeding.

16. The irrelevance of Mr. Kubas's testimony regarding the QERs is further demonstrated by his recommendations. Mr. Kubas states:

Q. DO YOU HAVE A RECOMMENDATION REGARDING THE INCLUSION OF THE NET PLANT AND ANNUAL DEPRECIATION EXPENSE RELATED TO "PLANT TO BE ADDED" IN THE FTY AND FPFTY IN UGI ELECTRIC'S QUARTERLY EARNINGS REPORTS?

A. Yes, I recommend that the Company not be permitted to include net plant and corresponding annual depreciation expense related to plant not yet in service, including FTY and FPFTY plant, in any future QERs.

I&E St. No. 5, p. 8 (underline emphasis added). Mr. Kubas restates this recommendation later in his testimony. I&E St. No. 5, p. 15. Mr. Kubas's recommended actions regarding QERs filed by

a public utility outside the context of a base rate proceeding is irrelevant to the evaluation of the rates and terms of service that are the subject of a public utility's base rate increase. Thus, Mr. Kubas's requested relief has nothing to do with the resolution of this proceeding, and would not be implemented until the quarter after the rest of the Commission's order is implemented.

17. Furthermore, base rate proceedings have a constrained timeframe and narrow focus. The Commission's time and resources are restricted by the statutory time constraints on base rate proceeding and, by raising issues related to filing requirements applicable to QERs filed outside the context of a base rate proceeding, I&E will prevent traditional base rate issues from receiving the thorough examination they deserve. In addition, and as noted previously, I&E's proposal in a base rate proceeding will exclude all other members of the industry, which will thwart a complete and adequate examination of Chapter 71 filing requirements for QERs cannot be accomplished in the context of a distribution base rate proceeding. Rather, the appropriate forum would be a statewide proceeding involving all public utilities and stakeholders. Such a proceeding would enable all interested parties to evaluate and address this issue. Therefore, an evaluation of QER filing requirements is well beyond the scope of this proceeding.

18. For these reasons, Mr. Kubas's testimony regarding UGI Electric's QERs is irrelevant to the Commission's consideration of the 2018 Base Rate Case and, therefore, I&E Statement No. 5 and Statement No. 5-SR should be stricken and disregarded.³

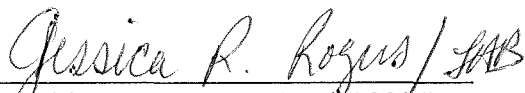
³ The Company recognizes that if its Motion to Strike is granted, portions of Mr. Szykman's testimony will also need to be struck. The Company will be prepared at the hearing to submit appropriately revised testimony.

III. CONCLUSION

WHEREFORE, UGI Utilities, Inc. – Electric Division respectfully requests that Administrative Law Judges Steven K. Haas and Andrew M. Calvelli strike the testimony of the Bureau of Investigation and Enforcement witness Joseph Kubas, and that Mr. Kubas’s testimony be disregarded in the disposition of this proceeding.

Respectfully submitted,

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Date: June 8, 2018

Counsel for UGI Utilities, Inc. – Electric Division

Appendix A

I&E Statement No. 5
Witness: Joseph Kubas

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

UGI UTILITIES, INC. – ELECTRIC DIVISION

Docket No. R-2017-2640058

Direct Testimony

of

Joseph Kubas

Bureau of Investigation and Enforcement

Concerning:
Quarterly Earnings Reports

1 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

2 A. My name is Joseph Kubas My business address is P.O. Box 3265, Harrisburg, PA
3 17105-3265.

4
5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by the Pennsylvania Public Utility Commission in the Bureau of
7 Investigation and Enforcement (I&E) as a Fixed Utility Valuation Engineer
8 Supervisor.

9
10 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?**

11 A. My education and professional background are set forth in Appendix A, which is
12 attached.

13
14 **Q. PLEASE DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.**

15 A. I&E is responsible for protecting the public interest in proceedings before the
16 Commission. The I&E analysis in this proceeding is based on its responsibility to
17 represent the public interest. This responsibility requires the balancing of the
18 interests of the utility company and the regulated community as a whole.

19
20 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

21 A. The purpose of my testimony is to address the discrepancies between the Company's
22 historic test year (HTY) net plant claim shown on UGI Exhibit A - Historic,

1 Schedule A-1 sponsored by UGI witness Megan Mattern in UGI Electric St. No. 4,
2 compared to the Quarterly Earnings Report (QER) submitted to the Commission by
3 UGI Utilities, Inc. – Electric Division (UGI Electric or Company) for the period
4 ending September 30, 2017.

5
6 **Q. DOES YOUR TESTIMONY INCLUDE AN EXHIBIT?**

7 A. Yes. I&E Exhibit 5 contains schedules relating to my direct testimony.

8
9 **Q. PLEASE DESCRIBE THE FILING.**

10 A. On January 26, 2018, UGI Electric filed a request to increase base electric rates by
11 approximately \$9,254,000. This request was revised downward to \$8,491,000 on
12 March 13, 2018.

13
14 **Q. WHAT INFORMATION DID I&E REVIEW IN ORDER TO EVALUATE**
15 **THIS UGI ELECTRIC FILING?**

16 A. As part of I&E's analysis of this filing, I&E reviewed the Company's HTY net plant
17 shown on UGI Exhibit A - Historic, Schedule A-1, in the base rate filing in
18 conjunction with the QER filed by UGI Electric for the same period. I also reviewed
19 the Company's QERs covering the HTY to evaluate changes in the Company's
20 financial condition over that period.

1 **Q. IN YOUR REVIEW OF UGI ELECTRIC’S RECENT QUARTERLY**
2 **EARNINGS REPORTS, WHAT DID YOU DISCOVER?**

3 A. In the most recent UGI Electric QER provided to the Commission for the 12-month
4 period ending September 30, 2017, the Company added \$44,453,000 of net plant to
5 the actual net plant balance of \$86,742,000 to arrive at an “adjusted” net plant of
6 \$131,195,000 (I&E Exhibit No. 6, Schedule 1, page 1, line 3). This \$44,453,000 of
7 net plant is an increase in actual net plant of **51.2%**. The Company also added
8 \$1,600,000 of annual depreciation expense to the actual annual depreciation expense
9 of \$4,495,000 to arrive at an “adjusted” annual depreciation expense of \$6,095,000
10 (I&E Exhibit No. 5, Schedule 1, page 1, line 18). These adjustments do not appear
11 to be supported by any actual plant additions in the historic period.

12
13 **Q. DID YOU ASK THE COMPANY TO JUSTIFY THE DISCREPANCIES**
14 **BETWEEN THE COMPANY’S SEPTEMBER 30, 2017 QUARTERLY**
15 **EARNINGS REPORT AND THE HTY CLAIMS IN THIS PROCEEDING?**

16 A. Yes. The Company was asked to address these discrepancies in an I&E
17 interrogatory (I&E Exhibit No. 5, Schedule 2).

18
19 **Q. HOW DID UGI ELECTRIC JUSTIFY THE \$44,453,000 OF ADDITIONAL**
20 **NET PLANT IN ITS SEPTEMBER 31, 2017 QUARTERLY EARNINGS**
21 **REPORTS IN ITS INTERROGATORY RESPONSE?**

1 A. In response to I&E-RR-12- D, the Company opines that Quarterly Earnings Reports,
2 which are submitted pursuant to Commission regulations, provide for, among other
3 criteria, ratemaking adjustments. The Company stated that “Act 11 of 2012 provides
4 for ratemaking on the basis of a Future Test Year or Fully Projected Future Test
5 Year, as may be elected by a utility. UGI Electric has elected to use a Fully
6 Projected Future Test Year, and accordingly, the referenced projected plant additions
7 are appropriate” (I&E Exhibit No. 5, Schedule 2).

8
9 **Q. ARE THERE COMMISSION REGULATIONS REGARDING THE FILING**
10 **OF QUARTERLY EARNINGS REPORTS BY REGULATED UTILITIES?**

11 A. Yes, the regulations referenced above regarding the filing of QERs are found in 52
12 Pa. Code Chapter 71, Financial Reports (Chapter 71).

13
14 **Q. DO THE COMMISSION REGULATIONS DEFINE THE PURPOSE OF THE**
15 **QUARTERLY EARNINGS REPORTS?**

16 A. Yes, the purpose of the QERs is to establish uniform and industry-wide financial
17 reporting requirements designed to improve the Commission’s ability to monitor on
18 a regular basis, the financial performance and earnings of the electric, gas, telephone,
19 water and wastewater public utilities which are subject to Commission jurisdiction.

1 **Q. ARE THE QUARTERLY EARNINGS REPORTS REQUIRED TO INCLUDE**
2 **ACTUAL PER BOOK DATA, ANNUALIZATION, NORMALIZATION,**
3 **AND RATEMAKING ADJUSTMENTS?**

4 A. Yes. The actual book revenues, expenses and investment amounts that reflect the
5 unadjusted results of operations for the 12-month periods ending each March 31,
6 June 30, September 30 and December 31 as recorded in the public utility's financial
7 books of account are required to be reflected in the QERs (Chapter 71, Section 71.2).
8 Annualization, normalization, and ratemaking adjustments are required only in the
9 financial report for the 12-month period ending December 31 of each year (Chapter
10 71, Section 71.2). These adjustments are not required for financial reports for the 12-
11 month periods ending March 31, June 30 and September 30.

12 Annualization adjustments are adjustments based on historic data that bring a
13 public utility's accounts up to a 12-month level of activity reflecting changes to the
14 account that occur before the end of the reported 12-month period. Normalization
15 adjustments are in-period adjustments that are made to remove abnormal, unusual or
16 nonrecurring items that occurred before the end of the reported 12-month period.
17 Chapter 71 defines "ratemaking adjustments" as adjustments to a public utility's
18 actual per book amounts to reflect disallowances made in prior cases by the
19 Commission to revenues, expenses and investments which are not reflected in the
20 public utility's financial books of account (Chapter 71, Section 71.2). Chapter 71
21 also states, regarding permitted adjustments to financial reports, that a public utility
22 shall make ratemaking adjustments to its intrastate per book amounts to reflect

1 adjustments made in prior cases by the Commission which are not included in the
2 actual per book amounts recorded by the public utility, if these adjustments are still
3 applicable, and adjustments to reflect current Commission ratemaking policy and
4 practices (Chapter 71 Section 71.6). Chapter 71, however, does not permit projected
5 rate base included in a FPFTY in a current base rate case to be included as an
6 adjustment in a QER as that rate base does not qualify as an adjustment approved by
7 the Commission in a prior case. Nor has the Commission issued any Secretarial
8 Letters allowing the practice.

9
10 **Q. WHAT BENEFIT DOES UGI ELECTRIC RECEIVE BY INCLUDING THE**
11 **ADDITIONAL \$44,453,000 OF NET PLANT AND \$1,600,000 OF ANNUAL**
12 **DEPRECIATION EXPENSE RELATED TO THE FUTURE TEST YEAR**
13 **(FTY) AND FULLY PROJECTED FUTURE TEST YEAR (FPFTY) IN THE**
14 **SEPTEMBER 30, 2017 QUARTERLY EARNINGS REPORT?**

15 A. The inclusion of these two items dramatically reduces the overall rate of return
16 (ROR) and return on equity (ROE) in its September 30, 2017 QER. As shown on
17 I&E Exhibit No. 5, Schedule 1, page 1, line 26, the Company determined that the
18 ROR earned by UGI in the Quarter Ending September 30, 2017 was 4.94%. As
19 shown on I&E Exhibit No. 5, Schedule 1, page 2, line 15, the Company determined
20 that the ROE earned by UGI Electric in the Quarter Ending September 30, 2017 was
21 5.22%.

1 **Q. DID YOU CALCULATE WHAT THE ROR AND ROE WOULD BE IF THE**
2 **\$44,453,000 OF NET PLANT AND \$1,600,000 OF ANNUAL**
3 **DEPRECIATION EXPENSE RELATED TO THE FTY AND FPFTY ARE**
4 **REMOVED FROM THE SEPTEMBER 30, 2017 QUARTERLY EARNINGS**
5 **REPORT?**

6 A. Yes. Without reflecting the projected plant and corresponding annual depreciation
7 expense that were added by UGI Electric, the ROR would have been 10.17% (I&E
8 Exhibit No. 5, Schedule 3, Page 1, line 26), and the ROE would have been 14.9%
9 (I&E Exhibit No. 5, Schedule 3, Page 2, line 15).

10
11 **Q. WHY WOULD UGI WANT TO REDUCE THE RATE OF RETURN AND**
12 **RETURN ON EQUITY IN ITS QUARTERLY EARNINGS REPORT?**

13 A. Lowering the ROR and ROE reported by UGI would present a direr financial picture
14 if there was an impending rate case and limit the possibility of an overearning
15 investigation. Additionally, a lower ROR also allows UGI to be eligible for a
16 Distribution System Improvement Charge (DSIC). Utilities that earn more than the
17 authorized ROR or more than the effective DSIC ROR in the event that the
18 Company does not have an authorized ROR from a rate case must reset the DSIC
19 recovery rate to zero (Public Utility Code Section 1358). With the previously
20 recalculated ROR for the September 30, 2017 QER, the Company would not have
21 been allowed a DSIC rate or would have been required to reset its existing DSIC rate
22 to zero based on an overearning outcome.

1 **Q. DO YOU HAVE A RECOMMENDATION REGARDING THE INCLUSION**
2 **OF THE NET PLANT AND ANNUAL DEPRECIATION EXPENSE**
3 **RELATED TO “PLANT TO BE ADDED” IN THE FTY AND FPFTY IN UGI**
4 **ELECTRIC’S QUARTERLY EARNINGS REPORTS?**

5 A. Yes, I recommend that the Company not be permitted to include net plant and
6 corresponding annual depreciation expense related to plant not yet in service,
7 including FTY and FPFTY plant, in any future QERs.

8
9 **Q. WHY DO YOU RECOMMEND THE COMPANY NOT BE PERMITTED TO**
10 **INCLUDE FTY AND FPFTY NET PLANT AND THE CORRESPONDING**
11 **ANNUAL DEPRECIATION EXPENSE IN QUARTERLY EARNINGS**
12 **REPORTS?**

13 A. There are several reasons for my recommendation. First, as set forth in Chapter 71,
14 there is no provision for the inclusion of any future plant additions in QERs. Further,
15 the only annualization adjustments permitted in Chapter 71 are for changes that
16 occur before the end of the 12-month period being reported. Second, as described
17 above, including FTY and FPFTY plant and corresponding annual depreciation
18 expense drastically lowers the ROR and ROE. The plant investments claimed have
19 not actually been made and are not reflective of the actual operations in that historic
20 reporting period. It makes no sense to include plant additions that may or may not be
21 made in 2019 when determining the actual historic ROR and ROE at September 30,
22 2017.

1 Third, FTY and FPFTY plant additions and annual depreciation expense
2 claims are only projections that may or may not occur two years beyond September
3 30, 2017. QERs should be based on verifiable current data, because the purpose of
4 the QERs is to provide the Commission a snapshot of the utility's current financial
5 performance and earnings. This is not achieved if UGI Electric is including
6 projected 2019 plant in its September 30, 2017 QER. Including FTY and FPFTY
7 plant and annual depreciation expense renders the QERs and the Commission's
8 summary meaningless, because the reports and summary are based on unsupported
9 projections that do not reflect the current financial position of the utilities being
10 reported. The inclusion of FTY and FPFTY plant projections in the QER is
11 speculative, and the practice of assuming this plant is in place during the historic
12 time period specified in the QER should not be permitted.

13
14 **Q. CAN YOU DEMONSTRATE THAT THE FTY AND FPFTY PLANT**
15 **PROJECTIONS CONTAINED IN THE QUARTERLY EARNINGS REPORT**
16 **ARE SPECULATIVE?**

17 **A.** Yes. As described above, in the September 30, 2017 QER, the Company projected it
18 would add \$44,453,000 of net plant additions by September 30, 2019. Since filing
19 that QER, the Company compiled and filed this base rate case, which demonstrates
20 that the Company's \$44,453,000 plant additions in the September QER were overly

1 optimistic. In this case, the Company is projecting it will add only \$32,729,000¹ of
2 net plant during the same period (October 1, 2017 to September 30, 2019) as
3 opposed to the \$44,453,000 contained in the September 2017 QER. The difference
4 is \$11,724,000, or 35% less than projected in the September 30, 2017 QER.
5

6 **Q. WHAT DOES THIS \$11,724,000 DIFFERENCE INDICATE?**

7 A. In less than two months from the filing of the September 30, 2017 QER on
8 December 1, 2017 to the filing of this base rate case, the Company's projected plant
9 additions became 35% less optimistic. This large difference in net plant indicates
10 that the Company's projected net plant additions in the September 31, 2017 QER
11 were highly speculative. Given the highly speculative nature of the Company's
12 projections and the fact that such projections are not contemplated in Chapter 71, I
13 recommend that no projected plant additions should be included in the QERs.
14

15 **Q. PLEASE ADDRESS THE COMPANY'S RATIONALE THAT SINCE THE**
16 **PASSAGE OF ACT 11 IN 2012 PROVIDES FOR RATEMAKING ON THE**
17 **BASIS OF THE FTY OR FPFTY, THE COMPANY IS ENTITLED TO**
18 **INCLUDE FTY AND FPFTY PLANT ADDITIONS AND ANNUAL**

¹ I arrived at the \$32,729,000 by subtracting the \$90,893,000 in net plant shown on UGI Book 5, Schedule A1, page 1 historic test year from the \$123,622,000 shown on UGI Book F, Schedule A-1,

1 **DEPRECIATION EXPENSE AS RATEMAKING ADJUSTMENTS IN ITS**
2 **QUARTERLY EARNINGS REPORTS?**

3 A. The Company's rationale regarding this claim is not supported for several reasons.
4 First, while I&E agrees with UGI Electric that Act 11 allows for rates to be based on
5 a FPFTY, it does not follow that those adjustments are properly included in the QER.
6 Act 11 does not address, nor does it modify or replace Chapter 71. In fact, the only
7 mention of quarterly reports in Act 11 concerns the DSIC reports. So, while FTY
8 and FPFTY projections are appropriate in rate cases, those projections are improper
9 in the QER because it distorts the utility's financial data. Second, as described
10 above, Chapter 71 defines "ratemaking adjustments" as adjustments to a public
11 utility's actual per book amounts to reflect disallowances made in prior cases by the
12 Commission to revenues, expenses and investments which are not reflected in the
13 public utility's financial books of account (Chapter 71, Section 71.2). Chapter 71
14 also states, regarding permitted adjustments to financial reports, that a public utility
15 shall make ratemaking adjustments to its intrastate per book amounts to reflect
16 adjustments made in prior cases by the Commission which are not included in the
17 actual per book amounts recorded by the public utility, if these adjustments are still
18 applicable, and adjustments to reflect current Commission ratemaking policy and
19 practices (Chapter 71 Section 71.6). Chapter 71, however, does not permit projected
20 rate base included in a FPFTY in a current base rate case to be included as an
21 adjustment in a QER as that rate base does not qualify as an adjustment approved by
22 the Commission in a prior case. Nor has the Commission issued any Secretarial

1 Letters allowing the practice. Third, the recent Commission QER compiled by the
2 Commission's Bureau of Technical Utility Services at Docket No. M-2018-2641241
3 for the Quarter Ending September 30, 2017, which summarizes the results of all
4 utilities and provides an introduction and background of the QER, makes no mention
5 of Act 11 or the inclusion of FTY and FPFTY plant additions and the corresponding
6 annual depreciation expense.

7 Finally, as discussed above, the Company's FPFTY plant claimed in this base
8 rate proceeding of \$32,729,000 does not support the \$44,453,000 in the September
9 2017 QER. Moreover, there is no guarantee that the Company will be permitted to
10 recover the full FPFTY plant as the ratemaking issue regarding whether utilities will
11 be able to reflect plant balances at the end of the FPFTY when establishing rates has
12 yet to be decided. It is possible the Commission may only allow utilities to reflect an
13 average balance of FPFTY plant when determining rates in a rate case. This year
14 end versus average rate base FPFTY issue has been raised by parties in several base
15 rate proceedings, and I&E has similarly raised it in this proceeding in I&E Statement
16 No. 3, but those prior cases have been resolved through settlement, so the
17 Commission has not yet ruled on that issue. Additionally, the Commission has yet to
18 finalize the filing requirements regarding the FPFTY. Given that the ratemaking
19 treatment of FPFTY plant additions is unsettled, those projections should not be
20 included in the QER.

1 **Q. ARE THERE ANY ADDITIONAL CONCERNS REGARDING UGI**
2 **ELECTRIC'S INCLUSION OF FTY AND FPFTY PLANT ADDITIONS AND**
3 **ANNUAL DEPRECIATION EXPENSE IN THE QUARTERLY EARNINGS**
4 **REPORTS?**

5 A. Yes. In addition to skewing its own data, this practice skews the data as compared to
6 other regulated utilities.

7
8 **Q. DO OTHER ELECTRIC UTILITIES INCLUDE PROJECTED FTY AND**
9 **FPFTY NET PLANT ADDITIONS AND CORRESPONDING ANNUAL**
10 **DEPRECIATION EXPENSE IN THEIR QUARTERLY EARNINGS**
11 **REPORTS?**

12 A. The four First Energy Companies, PPL Electric Utilities, and PECO Electric do not
13 include adjustments for any projected FTY and FPFTY plant additions in their 2017
14 QERs. It appears that only Duquesne Light Company and UGI Electric do include
15 future plant additions in their QERs.

16
17 **Q. WHY IS IT SIGNIFICANT THAT SOME UTILITIES INCLUDE FTY AND**
18 **FPFTY PROJECTED PLANT ADDITIONS AND CORRESPONDING**
19 **ANNUAL DEPRECIATION EXPENSE IN THEIR QUARTERLY**
20 **EARNINGS REPORTS AND SOME DO NOT?**

21 A. As described above, the inclusion of projected plant and corresponding annual
22 depreciation expense has a material effect on the ROR and ROE reported by a utility.

1 If some electric utilities include FTY and FPFTY plant and corresponding annual
2 depreciation expense, while others do not, the Commission's report is not uniform
3 and does not provide an accurate picture of the regulated electric industry. This
4 conflicts with the mandate of Chapter 71, which states that the purpose of the QER is
5 to determine uniform and standard industry-wide financial reporting requirements
6 designed to improve the Commission's ability to monitor on a regular basis the
7 financial performance and earnings of the electric, gas, telephone, water and
8 wastewater public utilities subject to Commission jurisdiction.²

9
10 **Q. WHAT DO THE DIFFERENCES IN THE COMPANY'S PROJECTED**
11 **PLANT ADDITIONS IN THE TWO FILINGS LESS THAN TWO MONTHS**
12 **APART INDICATE WITH RESPECT TO THIS BASE RATE FILING?**

13 A. The large differences evidence the unreliability of the Company's projections.
14 Therefore, the Commission should not ignore the disparity between the Company's
15 plant addition projections for the FPFTY as compared to the plant addition
16 projections reported in the Company's QERs.

² 52 Pa. Code § 71.1.

1 Q. **GIVEN THESE CONCERNS, PLEASE RESTATE YOUR**
2 **RECOMMENDATION.**

3 A. The QERs are supposed to give the Commission the ability to monitor on a regular
4 basis the financial performance and earnings of regulated utilities. The Company's
5 inclusion of FTY and FPFTY net plant and annual depreciation expense in its QERs
6 does not give the Commission an accurate picture of its financial performance or
7 earnings because plant investments claimed for the FTY ending September 30, 2018
8 and the FPFTY ending September 30, 2019 have not actually been made and are not
9 reflective of the Company's actual operations in the September 30, 2017 reporting
10 period. Future plant additions that may or may not be made in 2018 and 2019 should
11 not be used to determine the actual historic ROR and ROE as of September 30, 2017.
12 Moreover, such projections are highly speculative and are not contemplated in
13 Chapter 71; therefore, I recommend that no projected plant additions should be
14 included in the QERs.

15

16 Q. **DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

17 A. Yes.

JOSEPH KUBAS

*PENNSYLVANIA PUBLIC UTILITY COMMISSION
PO BOX 3265
HARRISBURG, PA 17105-3265*

Education: Bachelor of Science in Civil Engineering Technology, 1985, University of Pittsburgh at Johnstown, Johnstown, PA.

Continuing

Education: Legal Principles and Practices of Surveying at the University of Maryland. Economics, Accounting, 33 Credit hours of accounting at the Howard County Community College and the University of Pittsburgh at Johnstown. Managing Multiple Priorities at the Pennsylvania State University. Various PA-PUC and Utility Company Seminars.

Professional Engineer In Training, 1985,

Exams: Uniform Certified Public Accounting Exam, 1993.

Rate School: Cost of Service - Rate Structure Rate Design presentation before the Instructor at Commission's Rate School - September 2010, 2012 and 2014.

Title: **FIXED UTILITY VALUATION ENGINEER SUPERVISOR**
December 2011 - Present

Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement

Duties: Duties include the areas of Engineering, Revenue and Rate Structure for all fixed utility types. During the course of formal and informal investigations personnel under my direction are responsible for reviewing and presenting recommendations regarding tariff rate schedules, tariff rules and regulations, measures of value claims, revenue annualizations, depreciation claims, fuel purchasing practices and economic analyses. The types of dockets reviewed by the Bureau of I&E include: applications, formal complaints, investigations, petitions and rate investigations. The Engineering Section is also responsible for reviewing all pertinent supporting information such as cost of service studies, bill frequency analyses, proofs of revenue, depreciation studies, water quality test results and formal complaints. Duties also include reviewing default service petitions by electric distribution companies and Act 129

Filings by the seven major electric Utilities, including energy efficiency and conservation plans and Smart Meter Plans.

Title: **RATE CASE REVIEW SPECIALIST**
December 2009 - December 2011

Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement and Office of Trial Staff

Duties: These duties include the determination of the reasonableness of claims and proposals in the areas of plant in service, rate base, depreciation expense, cost of service, quality of service, revenues, acquisitions, purchase gas expense, rate structure, and tariff proposal submitted by Water, Sewer, Telephone, Gas and Steam Heat utilities to justify utility service rates, or alternative forms of regulation. Research, analyze, and review rate case filings, tariff filings, acquisitions and investigations. Participate in on-site inspections of utility properties to determine the used and usefulness of the plant-in service and make recommendations. Prepare interrogatories in the areas of rate base, depreciation expense, purchase gas expense, amortizations, rate structure, revenue and quality of service in order to obtain additional information regarding a utility's filing. Analyze present revenue, proposed revenue, rate structure and tariff issues. Recommend adjustments to rate base, depreciation expense, revenue, rate structure and other issues concerning fixed utilities. Prepare testimony and exhibits for the purpose of establishing the I&E position in formal and informal proceedings before the Commission. Provide assistance and input to I&E employees concerning engineering and rate structure issues including input for briefs and exceptions. Participate in Commission consultative report proceedings and collaboratives undertaken by the Commission.

Title: **FIXED UTILITY VALUATION ENGINEER III**
December 1999 - December 2009

Pennsylvania Public Utility Commission
Office of Trial Staff

Duties: These duties include the determination of the reasonableness of claims and proposals in the areas of plant in service, rate base, depreciation expense, cost of service, quality of service, revenues, acquisitions, purchase gas

expense, rate structure, and tariff proposal submitted by Water, Sewer, Telephone, Gas and Steam Heat utilities to justify utility service rates, or alternative forms of regulation. Research, analyze, and review rate case filings, tariff filings, acquisitions and investigations. Participate in on-site inspections of utility properties to determine the used and usefulness of the plant-in service and make recommendations. Prepare interrogatories in the areas of rate base, depreciation expense, purchase gas expense, amortizations, rate structure, revenue and quality of service in order to obtain additional information regarding a utility's filing. Analyze present revenue, proposed revenue, rate structure and tariff issues. Recommend adjustments to rate base, depreciation expense, revenue, rate structure and other issues concerning fixed utilities. Prepare testimony and exhibits for the purpose of establishing the OTS position in formal and informal proceedings before the Commission. Provide assistance and input to OTS employees concerning engineering and rate structure issues including input for briefs and exceptions. Participate in Commission consultative report proceedings and collaboratives undertaken by the Commission.

Title: **FIXED UTILITY VALUATION ENGINEER II**
April 1996 - December 1999

Pennsylvania Public Utility Commission
Office of Trial Staff and Bureau of Fixed Utility Services

Duties: Perform the duties of a Fixed Utility Valuation Engineer II in the Office of Trail Staff (OTS) and Bureau of Fixed Utility Services.

Title: **FIXED UTILITY VALUATION ENGINEER TRAINEE, I & II** May 1993 -
March 1996

Pennsylvania Public Utility Commission
Office of Trial Staff
Telecommunications and Water Division

Duties: Perform the duties of a Fixed Utility Valuation Engineer II in the Rate Structure/Engineering Section of the Telecommunications and Water Division of the Office of Trial Staff (OTS).

Title: **CIVIL ENGINEER**
May 1985 - January 1991

Clark Finefrock & Sackett Inc.
7135 Minstrel Way
Columbia, MD 21045

Duties: Engineering, Surveying, Computer, and Field Inspection work related to land development projects in Maryland.

Testimony Before the Pennsylvania Public Utility Commission

- | | | |
|-----|---|------------------|
| 1. | National Utilities Inc. (Water) | R-00953416 |
| 2. | Consumer Pennsylvania Water
Company - Roaring Creek Division | R-00973869 |
| 3. | Philadelphia Suburban Water Company | R-00973952 |
| 4. | Bell Atlantic - Pennsylvania Inc. | P-00971307 |
| 5. | City of Bethlehem- Bureau of Water | R-00984375 |
| 6. | Pennsylvania Telephone Association -
Chapter 30 Plan | P-00981425 |
| 7. | GTE North Inc. Telephone
Chapter 30 Plan | P-00981449 |
| 8. | Pennsylvania American Water Co. | R-00994638 |
| 9. | Philadelphia Suburban Water Co. | R-00994868 |
| 10. | PG Energy (Gas) | R-00005119 |
| 11. | Pennsylvania American Water -
Coatesville Acquisition | A-212285-F0071 |
| 12. | T. W Phillips Gas and Oil Company | R-00005459 |
| 13. | Verizon North - Chapter 30 Plan | P-00001854 |
| 14. | Philadelphia Gas Works | R-00006042 |
| 15. | PFG Gas Inc. & Penn Fuels Gas Co. | R-00013679 |
| 16. | Pennsylvania American Water Co. | R-00016339 |
| 17. | Philadelphia Suburban Water Co. | R-00016750 |
| 18. | Philadelphia Gas Works | R-00017034 |
| 19. | PFG Gas Inc. & Penn Fuels Gas Co | R-00027389 |
| 20. | Verizon - Pennsylvania, Inc. | P-00021973 |
| 21. | Verizon - Pennsylvania, Inc. | P-00937105-F0002 |
| 22. | Pennsylvania American Water Co. | R-00027982 |
| 23. | Dominion Peoples 1307(f) | R-00038170 |
| 24. | Verizon PA / Verizon North | C-20027195 |

25.	National Fuel Gas Distribution, Inc.	R-00038168
26.	Aqua Pennsylvania Inc.	R-00038805
27.	Dominion Peoples 1307 (f)	R-00049153
28.	PPL Electric Utilities	R-00049255
29.	National Fuel Gas Distribution, Inc.	R-00049656
30.	City of Lancaster - Sewer	R-00049862
31.	Dominion Peoples 1307(f)	R-00050267
32.	Verizon PA / Verizon North	C-20027195
33.	PPL Gas Utilites Inc. 1307(f)	R-00050540
34.	United Telephone	A-313200-F0007
35.	Aqua Pa	R-00051030
36.	T.W. Phillips 1307(f)	R-00051134
37.	City of Dubois	R-00050671
38.	T.W. Phillips	R-00051178
39.	The Peoples Natural Gas Co. 1307(f)	R-00061301
40.	Met-Ed/Penelec	R-00061366 and R-00061367
41.	The York Water Company	R-00061322
42.	PPL Gas Utilities Corporation	R-00061398
43.	National Fuel Gas Distribution, Inc.	R-00061493
44.	Pennsylvania American Water Co.	P-00062241
45.	Philadelphia Gas Works	R-00061931
46.	PPL Electric	R-00072155
47.	Pennsylvania-American Water Co.	R-00072229
48.	Valley Energy	R-00072349
49.	City of Bethlehem	R-00072492
50.	Aqua Pennsylvania, Inc.	R-00072711
51.	T.W. Phillips 1307(f)	R-2008-2013026
52.	Columbia Gas	R-2008-2011621
53.	The Peoples Natural Gas Co. 1307(f)	R-2008-2022206
54.	PECO Energy	P-2008-2032333
55.	NRG Energy Center Harrisburg	R-2008-2028395
56.	PAWC - Coatesville Wastewater	R-2008-2032689
57.	York Water	R-2008-2023067
58.	Pike County Power and Light (Gas)	R-2008-2046520
59.	Columbia Water	R-2008-2045157
60.	T. W. Phillips Gas (1307-f)	R-2008-2075250
61.	The Peoples Natural Gas Co. (1307-f)	R-2009-2088069
62.	UGI Utilities Inc. (1307-f)	R-2009-2105911
63.	PAWC Water	R-2009-2097323
64.	UGI Utilities Inc.	R-2009-2105911
65.	Penn Estates Water	R-2009-2117532

66.	Penn Estates Sewer	R-2009-2117740
67.	AT&T Communications	C-2009-2098380
68.	Aqua Pennsylvania Inc.	R-2009-2132019
69.	T.W. Phillips Gas (1307-f)	R-2009-2145441
70.	PGW Gas	R-2009-2139884
71.	City of Bethlehem - Remand	R-00072492
72.	Dominion Peoples (1307-f)	R-2010-2155608
73.	PECO Energy - Gas Division	R-2010-2161592
74.	UGI Penn National Gas	R-2010-2172928
75.	PAWC Coatesville Operations	R-2010-2166212
76.	PAWC Northeast Operations	R-2010-2166214
77.	Duquesne Light	R-2010-2179522
78.	Peoples Natural Gas Company	R-2010-2201702
79.	T.W. Phillips - Steel River Application	A-2010-2210326
80.	Peoples Natural Gas 1307(f)	R-2011-2228694
81.	UGI Penn Natural Gas 1307(f)	R-2011-2238943
82.	Pennsylvania American Water	R-2011-2232243
83.	Aqua Pennsylvania, Inc.	R-2011-2267958
84.	Borough of Quakertown	R-2011-2251181
85.	Peoples Natural Gas Company	R-2012-2285985
86.	Columbia Gas of Pennsylvania	R-2012-2321748
87.	UGI Utilities Inc.	R-2015-2518438
88.	Aqua Wastewater	A-2017-2605434
89.	Pennsylvania American Water	R-2017-2595853

I&E Exhibit No. 5
Witness: Joseph Kubas

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

UGI UTILITIES, INC. – ELECTRIC DIVISION

Docket No. R-2017-2640058

**Exhibits to Accompany
the
Direct Testimony**

of

Joseph Kubas

Bureau of Investigation and Enforcement

**Concerning:
Quarterly Earnings Reports**

Company Name: UGI Utilities, Inc. - Electric Division (EDC)
Financial Report for Twelve Months Ended
September 30, 2017
(Thousands of Dollars)

SCHEDULE A

	Actual per Books (1)	Intrastate Percent (2)	Intrastate per books (3)	Adjustments (a) (4)	Adjusted Results (5)
(1) Original Cost of Plant In Service	\$146,594	1.0000	\$146,594	\$55,266	\$201,859
(2) Less: Depreciation Reserve	\$59,853	1.0000	59,853	\$10,812	70,664
(3) Net Plant In Service	\$86,742	1.0000	86,742	\$44,453	131,195
<u>Additions:</u>					
(4) Land/Plant Held for Future Use	\$0	1.0000	0	\$0	0
(5) Materials & Supplies & Fuel Stocks	\$1,244	1.0000	1,244	\$0	1,244
(6) Cash Working Capital	\$4,347	1.0000	4,347	(\$12)	4,335
(7) Other	\$0	1.0000	0	\$0	0
<u>Deductions:</u>					
(8) Accumulated Deferred Income Taxes	\$0	1.0000	0	\$0	0
(9) Liberalized Depreciation	\$21,968	1.0000	21,968	\$3,969	25,937
(10) Other	\$0	1.0000	0	\$0	0
(11) Customer Deposits	\$1,419	1.0000	1,419	\$0	1,419
(12) Customer Advances	\$0	1.0000	0	\$0	0
(13) Contributions in Aid of Construction	\$0	1.0000	0	\$0	0
(14) Other	\$0	1.0000	0	\$0	0
(15) RATE BASE	\$88,946	1.0000	\$88,946	\$40,471	\$109,418
(16) <u>Operating Revenues</u>	\$82,755	1.0000	82,755	\$997	\$83,752
<u>Operating Expenses</u>					
(17) Operation & Maintenance	\$65,417	1.0000	65,417	(\$700)	64,717
(18) Annual Depreciation	\$4,495	1.0000	4,495	\$1,600	6,095
(19) Taxes - Other than Income	\$5,438	1.0000	5,438	\$143	5,581
(20) State Income Tax - Current	(\$58)	1.0000	(58)	\$584	526
(21) Federal Income Tax - Current	(\$153)	1.0000	(153)	\$557	404
(22) Deferred Income Taxes	\$302	1.0000	302	\$718	1,020
(23) Investment Tax Credit (Net)	\$0	1.0000	0	\$0	0
(24) Total Operating Expenses	\$75,441	1.0000	75,441	\$2,903	78,344
(25) INCOME AVAILABLE FOR RETURN	\$7,314	1.0000	\$7,314	(\$1,906)	\$5,408
RATE OF RETURN - OVERALL	10.61%		10.61%		4.94%

(a) Summary of adjustments shown in Schedule B and Schedule C

Company Name: UGI Utilities, Inc. - Electric Division (EDC)

SCHEDULE D-2

Intrastate Pro Forma Results
 Calculation of Return on Common Equity

as of 9/30/2019

(Thousands of Dollars)

	Capital Ratios(a)		Rate Base(b)		Totals		Embedded Cost Rates(c)		Total Rate Base Related Cost of Debt and Preferred & Preference
	(1)		(2)		(3)		(4)		(5)
	Sch. E-2 Col. 2	x	Sch. A. Col. 5 Line 16	=		x	Sch. F-2 Col. 7	=	
1) Debt	45.98%		\$109,418		\$50,310		4.61%		\$2,321
2) Preferred	0.00%		\$109,418		0		0.00%		\$0
3) Common Equity	54.02%		\$109,418		59,108		0.00%		\$0
4) Total	100.00%				\$109,418				\$2,321

12 Months ended 9/30/2019

	Intrastate Adjusted
5) Income Available for Return (from Sch. A, Col. 5, Line 26)	\$5,408
6) Less: Total Rate Base Related Cost of Debt and Preferred (Col 5, Line 4)	\$2,321
7) Income Available for Common Equity (Line 5 Less Line 6)	\$3,087
8) Debt Cost (Col 5., Line 1)	\$2,321
9) Less: Interest Expense used to compute State and Federal Income Taxes	2,321
10) Difference (Line 8 Less Line 9)	\$0
11) Times: Composite State and Federal Income Tax Rate	41.49%
12) Net Addition or (Deduction) (Line 10 x Line 11)	\$0
13) Income Available for Common Equity, including Income Tax Effect of using Debt Cost (Line 7 plus Line 12)	\$3,087
14) Return on Common Equity (Line 7/Line 3, Col. 3)	5.22%
15) Return on Common Equity, including Income Tax Effect of using Debt Cost (Line 13/Line 3, Col. 3)	5.22%

UGI Utilities, Inc. - Electric Division
Docket No. R-2017-2640058
2018 Base Rate Case
Responses to I&E RR-1-D thru RR-12-D
Delivered on February 26, 2018

I&E-RR-11-D

Request:

Reference the UGI Utilities – Electric Division Financial Report for Twelve Months Ended September 30, 2017, Schedule A which was submitted to PA PUC Technical Utility Services (TUS).

- A. Identify the exact date for the column labeled “Actual per Books”;
- B. Identify the exact date for the column labeled “Adjusted Results”;
- C. Explain in detail why the company added \$55,265,000 in the column labeled “Adjustments”;
- D. Explain in detail why the Company added \$10,812,000 of accrued depreciation in the column labeled “Adjustments”;
- E. Provide a breakdown by plant account for the \$55,265,000 and the \$10,612,000 in the column labeled “Adjustments”, including the date each item was placed into service;
- F. State whether the Company believes that a quarterly earnings report should reflect plant not yet placed into service at the end of the quarter the report is covering. If yes, explain why the Company believes this inclusion accurately reflects the quarter being reported.

Response:

- A) The column labeled "Actual per Books" represents 9/30/2017.
- B) The column labeled "Adjusted Results" represents 9/30/2019.
- C & D) Please see Attachment I&E-RR-11-D for a breakdown of the adjustments. The adjustments represent the additions and retirements for the Future Test Year and the Fully Projected Future Test Year along with the addition of the common asset allocations.
- E) Please refer to Exhibit C, Book VII (Future), pages V-6 - V-9 and Exhibit C, Book VI (Fully Projected), pages II-5 - II-8 for a listing of the additions by plant account. Also,

UGI Utilities, Inc. - Electric Division
Docket No. R-2017-2640058
2018 Base Rate Case
Responses to I&E RR-1-D thru RR-12-D
Delivered on February 26, 2018

I&E Exhibit No. 5
Schedule 2
Page 2 of 2

I&E-RR-11-D (Continued)

please refer to I&E-RB-6-D for a listing of the budgeted additions by project and estimated in service dates.

F) Yes. Earnings Reports are submitted pursuant to 52 PA. Code §71.3, which provide for, among other criteria, ratemaking adjustments. Act 11 of 2012 provides for ratemaking on the basis of a Future Test Year or Fully Projected Future Test Year, as may be elected by a utility. UGI Electric has elected to use a Fully Projected Future Test Year, and accordingly, the referenced plant additions are appropriate.

Prepared by or under the supervision of: Megan Mattern

Company Name: UGI Utilities, Inc. - Electric Division (EDC)
 Financial Report for Twelve Months Ended
 September 30, 2017
 (Thousands of Dollars)

I&E REVISED

	Actual per Books (1)	Intrastate Percent (2)	Intrastate per books (3)	Adjustments (4)	Adjusted Results (5)
(1) Original Cost of Plant In Service	\$146,594	1.0000	\$146,594	\$0	\$146,594
(2) Less: Depreciation Reserve	\$59,853	1.0000	59,853	\$0	59,853
(3) Net Plant in Service	\$86,742	1.0000	86,742	\$0	\$86,742
<i>Additions:</i>					
(4) Land/Plant Held for Future Use	\$0	1.0000	0	\$0	0
(5) Materials & Supplies & Fuel Stocks	\$1,244	1.0000	1,244	\$0	1,244
(6) Cash Working Capital	\$4,347	1.0000	4,347	(\$12)	4,335
(7) Other	\$0	1.0000	0	\$0	0
<i>Deductions:</i>					
(8) Accumulated Deferred Income Taxes	\$0	1.0000	0	\$0	0
(9) Liberalized Depreciation	\$21,968	1.0000	21,968	\$0	\$21,968
(10) Other	\$0	1.0000	0	\$0	0
(11) Customer Deposits	\$1,419	1.0000	1,419	\$0	1,419
(12) Customer Advances	\$0	1.0000	0	\$0	0
(13) Contributions in Aid of Construction	\$0	1.0000	0	\$0	0
(14) Other	\$0	1.0000	0	\$0	0
(15) RATE BASE	\$88,946	1.0000	\$88,946	(\$12)	\$88,934
(16) Operating Revenues	\$82,755	1.0000	82,755	\$997	\$83,752
<i>Operating Expenses</i>					
(17) Operation & Maintenance	\$65,417	1.0000	65,417	(\$700)	64,717
(18) Annual Depreciation	\$4,495	1.0000	4,495	\$0	\$4,495
(19) Taxes - Other than Income	\$5,438	1.0000	5,438	\$143	5,581
(20) State Income Tax - Current	(\$58)	1.0000	(58)	\$584	526
(21) Federal Income Tax - Current	(\$153)	1.0000	(153)	\$557	404
(22) Deferred Income Taxes	\$302	1.0000	302	\$718	1,020
(23) Investment Tax Credit (Net)	\$0	1.0000	0	\$0	0
(24) Total Operating Expenses	\$75,441	1.0000	75,441	1,303	76,744
(25) INCOME AVAILABLE FOR RETURN	\$7,314	1.0000	\$7,314	(\$1,906)	\$7,009
(26) RATE OF RETURN - OVERALL	10.61%		10.61%		10.17%

Company Name: UGI Utilities, Inc. - Electric Division (EDC)
 Intrastate Pro Forma Results
 Calculation of Return on Common Equity
 as of 9/30/2019
 (Thousands of Dollars)

I&E REVISED

	Capital Ratios(a) (1)	x	Rate Base(b) (2)	=	Totals (3)	x	Embedded Cost Rates(c) (4)	=	Total Rate Base Related Cost of Debt and Preferred & Preference (5)
	Sch. E-2 Col. 2		Sch. A. Col. 5 Line 16				Sch. F-2 Col. 7		
1) Debt	46.98%		\$68,934		31,695		4.61%		\$1,463
2) Preferred	0.00%		\$68,934		0		0.00%		\$0
3) Common Equity	54.02%		\$68,934		37,239		0.00%		\$0
4) Total	100.00%				\$68,934				\$1,463

12 Months ended 9/30/2019

	Intrastate Adjusted
5) Income Available for Return (from Sch. A, Col. 5, Line 28)	\$7,009
8) Less: Total Rate Base Related Cost of Debt and Preferred (Col 5, Line 4)	\$1,463
7) Income Available for Common Equity (Line 5 Less Line 6)	\$5,546
8) Debt Cost (Col 5., Line 1)	\$1,463
9) Less: Interest Expense used to compute State and Federal Income Taxes	1,463
10) Difference (Line 8 Less Line 9)	(\$0)
11) Times: Composite State and Federal Income Tax Rate	41.5%
12) Net Addition or (Deduction) (Line 10 x Line 11)	\$0
13) Income Available for Common Equity, including Income Tax Effect of using Debt Cost (Line 7 plus Line 12)	\$5,546
14) Return on Common Equity (Line 7/Line 3, Col. 3)	14.9%
15) Return on Common Equity, including Income Tax Effect of using Debt Cost (Line 13/Line 3, Col. 3)	14.9%

Appendix B

**I&E Statement No. 5-SR
Witness: Joseph Kubas**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

UGI UTILITIES, INC. – ELECTRIC DIVISION

Docket No. R-2017-2640058

Surrebuttal Testimony

of

Joseph Kubas

Bureau of Investigation and Enforcement

**Concerning:
Quarterly Earnings Reports**

1 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

2 A. My name is Joseph Kubas My business address is P.O. Box 3265, Harrisburg, PA
3 17105-3265.

4
5 **Q. ARE YOU THE SAME JOSEPH KUBAS THAT SUBMITTED DIRECT**
6 **TESTIMONY ON APRIL 26, 2018 IN THIS PROCEEDING?**

7 A. Yes. I provided I&E Statement No. 5 on April 26, 2018.

8

9 **Q. WHAT ISSUE DID YOU ADDRESS IN YOU DIRECT TESTIMONY?**

10 A. I addressed the Quarterly Earnings Report (QER) submitted to the Commission by
11 UGI Utilities, Inc. - Electric Division (UGI Electric or Company) for the period
12 ending September 30, 2017.

13

14 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

15 A. The purpose of my Surrebuttal testimony is to address the rebuttal testimony of Paul J.
16 Szykman concerning the Company's Quarterly Earnings Reports filed on behalf of
17 UGI Electric as part of its request for an approximately \$8 million distribution base
18 rate revenue increase.

19

20 **Q. DOES YOUR SURREBUTTAL TESTIMONY INCLUDE AN**
21 **ACCOMPANYING EXHIBIT?**

1 A. No. However, I will refer to my direct testimony and exhibit in this surrebuttal
2 testimony (I&E Statement No. 5 and I&E Exhibit No. 5).

3

4 **Q. WHAT DID YOU RECOMMEND CONCERNING THE QUARTERLY**
5 **EARNINGS REPORTS SUBMITTED TO THE COMMISSION BY UGI**
6 **ELECTRIC?**

7 A. I recommended that the Company not be permitted to include net plant and
8 corresponding annual depreciation expense related to plant not yet in service,
9 including future test year (FTY) and fully projected future test year (FPFTY) plant and
10 corresponding annual depreciation expense (collectively FPFTY Plant), in any future
11 QERs (I&E Statement No. 5, p. 8).

12

13 **Q. WHY DID YOU MAKE THIS RECOMMENDATION?**

14 A. I made this recommendation because the inclusion of FPFTY Plant is not permitted in
15 QERs (I&E Statement No. 5, p. 4). Further, the inclusion of FPFTY Plant causes the
16 rate of return (ROR) and return on equity (ROE) in the subject quarter to be
17 understated (I&E Statement No. 5, p. 6). I also made this recommendation so that the
18 Commission's quarterly reports provide uniform data since most electric utilities do
19 not include FPFTY Plant in their QERs (I&E Statement No. 5, p. 13).

20

21 **Q. DID THE COMPANY ADDRESS YOUR RECOMMENDATION**
22 **CONCERNING ITS QUARTERLY EARNINGS REPORTS?**

1 A. Yes. The Company disagrees with my recommendation for the following reasons.
2 First, the Company states that the filing requirements in 52 Pa. Code Chapter 71,
3 Financial Reports (Chapter 71) were changed by Act 11 and that I have failed to
4 recognize that FPFTY ratemaking is permitted (UGI Statement No. 1-R, p. 4).
5 Second, the Company states that I infer that the language of Chapter 71, Section
6 71.6(d), limits ratemaking adjustments to only those “adjustments made in prior
7 cases”, rather than ratemaking adjustments to reflect current Commission
8 ratemaking policy and practices.” (UGI Statement No. 1-R, p. 5). Third, the
9 Company states that my testimony discussing the Company’s September 30, 2017
10 desire to present a direr financial picture is without merit (UGI Statement No. 1-R, pp.
11 5-6). Fourth, the Company believes that my testimony concerning the Distribution
12 System Improvement Charge (DSIC) is without merit because the Company
13 currently does not have a DSIC (UGI Statement No. 1-R, p. 6). Fifth, the Company
14 believes FPFTY Plant should be in the QER because the numbers are not
15 speculative, but consistent with the Commission’s position in other proceedings
16 (UGI Statement No. 1-R, pp. 6-8). Sixth, the Company believes that its rationale for
17 the FPFTY ratemaking adjustments is rooted in the permissible ratemaking
18 adjustments authorized by Act 11 (UGI Statement No. 1-R, pp. 8-9).

19 Additionally, the Company argues that since other utilities, including
20 affiliates of UGI Electric, include FPFTY Plant in their QERs, it must be acceptable
21 for UGI Electric to also include FPFTY Plant in QERs (UGI Statement No. 1-R, p.
22 9). The Company recommends that, if the Commission decides to take action on the

1 QERs, it be done through a separate rulemaking to study the issue. (UGI Statement
2 No. 1-R, pp. 10-11). Finally, the Company believes that Act 11 allows utilities like
3 UGI to move forward and utilize its Long-Term Infrastructure Improvement Plan
4 (LTIIIP) and that if my recommendation is accepted, utilities will re-evaluate their
5 LTIIIP commitments, and file more base rate cases. The Company argues that my
6 recommendation lessens the effectiveness of the DSIC and creates regulatory
7 inefficiencies (UGI Statement No. 1-R, pp. 11-12). The Company also states that no
8 complaints were filed against its practice (UGI Statement No. 1-R, p. 4).

9
10 **1. Act 11**

11 **Q. PLEASE SUMMARIZE THE COMPANY'S BELIEF THAT ACT 11**
12 **CHANGED THE FILING REQUIREMENTS DESCRIBED IN CHAPTER 71.**

13 A. The Company states that since Act 11 allows for the use of the FPPTY in
14 ratemaking, the only logical conclusion is to utilize this current ratemaking
15 treatment in the Company's reporting pursuant to Chapter 71 (UGI Statement No.
16 1-R, p. 4). The Company believes that the rationale for including FPPTY Plant is
17 rooted in permissible ratemaking adjustments authorized by Act 11 (UGI Statement
18 No. 1-R, p. 8).

19
20 **Q. IS THE COMPANY CORRECT THAT ACT 11 CHANGED THE FILING**
21 **REQUIREMENTS SET FORTH IN CHAPTER 71?**

1 A. No. The Company relies on its own stretched logic and faulty analysis to reach this
2 unsupported conclusion. As described in my direct testimony, QER requirements are
3 contained in Chapter 71 of the Commission's Regulations. Chapter 71 does not
4 permit FPFTY Plant to be included as an adjustment in a QER as FPFTY plant
5 additions do not qualify as an adjustment approved by the Commission in a prior case.
6 Also, as described in Chapter 71, the Commission would have to issue a Secretarial
7 Letter allowing the practice (I&E Statement No. 5, pp. 11-12).

8 I&E recognizes that Act 11 permits utilities to set rates based on a FPFTY;
9 therefore, including FPFTY Plant in rate cases is perfectly appropriate. However, it
10 does not follow that FPFTY Plant should be reflected in the QERs, as the purpose is to
11 allow the Commission a snapshot of the utility's current financial performance and
12 earnings at that point in time. Therefore, only verifiable, current data should be
13 included in the QER. The Commission cannot monitor the financial performance and
14 earnings if future plant is included in the QER as it dramatically understates the ROR
15 and ROE in the reported period. As illustrated in my Direct Testimony, the ROR in
16 the Company's filed QER for the Quarter Ending September 30, 2017, which reflected
17 projected plant and depreciation expense, was 4.94% and the ROE was 5.22% (I&E
18 St. No. 5, pp. 6-7). If the future plant and corresponding annual depreciation expense
19 are removed, the ROR reflected in the September 30, 2017 QER would have been
20 10.17% and the ROE would have been 14.9% (I&E St. No. 5, pp. 6-7). Some of the
21 plant that UGI Electric included in the September 30, 2017 QER may not be used and
22 useful until 2019; therefore, it is illogical to included it in that reporting period as it is

1 not reflective of the actual operations for the quarter ending September 30, 2017. It is
2 illogical to include plant additions that may or may not be made in 2019 in the
3 September 30, 2017 report as it does not provide the Commission with an accurate
4 picture of the utility's current financial performance and earnings.

5
6 **Q. ARE THE RATEMAKING ADJUSTMENTS MADE IN THE QERS BY THE**
7 **COMPANY ROOTED IN THE PERMISSIBLE RATEMAKING**
8 **ADJUSTMENTS AUTHORIZED BY ACT 11?**

9 A. No. As described in my direct and surrebuttal testimony, there is no support for the
10 Company's belief that it ever received permission to include FPFTY Plant in QERs.

11
12 **Q. WHAT DOES THE COMPANY BELIEVE YOU FAILED TO RECOGNIZE**
13 **CONCERNING PLANT REPORTED IN QERS?**

14 A. The Company believes that I failed to recognize the use of the FPFTY in Pennsylvania
15 and how it changed the QERs. The Company also believes that I am incorrect that
16 plant additions in the QER must be actual (UGI Statement No. 1-R, p. 4).

17
18 **Q. DO YOU RECOGNIZE THE USE OF THE FPFTY IN PENNSYLVANIA?**

19 A. Yes, inclusion of FPFTY Plant is appropriate in base rate cases. However, as
20 described above and in my direct testimony (I&E St. No. 5, pp. 10-12), plant projected
21 in the FPFTY should not be included in QERs as it distorts the utility's financial

1 performance in that reporting period. A base rate case and a QER are two different
2 filings with two different filing requirements (I&E Statement No. 5, pp. 4-9).

3
4 **Q. IS IT YOUR POSITION THAT ONLY ACTUAL PLANT SHOULD BE**
5 **REPORTED IN QUARTERLY EARNINGS REPORTS?**

6 A. Certainly. As described in my direct testimony, the purpose of a QER is to monitor
7 the financial performance of utilities at a particular point in time. If utilities include
8 projected plant that may or may not be made two years in the future, the QER
9 becomes meaningless because the Commission cannot monitor the utility's current
10 performance (I&E Statement No. 5, pp. 4, 9).

11
12 **2. Chapter 71**

13 **Q. THE COMPANY DISAGREES WITH YOUR POSITION THAT CHAPTER**
14 **71 DOES NOT PERMIT FPFTY ADJUSTMENTS IN QUARTERLY**
15 **EARNINGS REPORTS UNDER CHAPTER 71. PLEASE EXPLAIN.**

16 A. The Company opines that my testimony infers that that the language of Section
17 71.6(d) does not limit ratemaking adjustments to only those "adjustments made in
18 prior cases", rather ratemaking adjustments also include adjustments to reflect
19 current Commission ratemaking policy and practices. Since Act 11 materially
20 modified the Commission's ratemaking policy, UGI Electric states that it should be
21 free to apply the rules described in Act 11 to the regulations in Chapter 71 (UGI
22 Statement No. 1-R, p. 5).

1 **Q. DID THE COMMISSION, OR ANY OTHER AUTHORITY, AUTHORIZE**
2 **UTILITIES TO APPLY THE PROVISIONS OF ACT 11 TO THE CHAPTER**
3 **71 FINANCIAL REPORTING REQUIREMENTS?**

4 A. No. As described in my direct testimony, the passage of Act 11 did not modify
5 Chapter 71, nor has there ever been a secretarial letter issued permitting utilities to
6 include FPFTY Plant in QERs (I&E Statement No. 5, p. 11).

7
8 **Q. SHOULD THE COMPANY'S CLAIM THAT THE PHRASE "CURRENT**
9 **COMMISSION POLICIES AND PRACTICES" INCLUDED IN SECTION**
10 **71.6(a) ALLOW UTILITIES TO INCLUDE FPFTY PLANT IN QERS BE**
11 **ACCEPTED?**

12 A. No. As described in my direct testimony, the entire Section 71.6 must be read to
13 determine what is permitted in a QER (I&E St. No. 5, p. 11). Section 71.6 is
14 backward looking as it references the "results" of the utility's operations in Section
15 71.6(a). The first sentence in Section 71.6(d) specifically references "per book
16 amounts to reflect adjustments made in prior cases by the Commission." Again, this is
17 backward looking. And these adjustments are only allowed if they are "not already
18 included in in the actual per book amounts," and if they "are still applicable," and they
19 "reflect current Commission ratemaking policy and practices." Again, all of these
20 requirements are applicable to "adjustments made in prior cases," not the
21 FPFTY. The second sentence in Section 71.6(d) specifies the requirement of a
22 Secretarial letter needed to modify the filing requirements. As stated in my direct

1 testimony, since the Commission has not issued a secretarial letter approving the
2 inclusion of the FPFTY Plant, the FPFTY Plant is not permitted to be included under
3 Chapter 71 (I&E Statement No. 5, pp. 11-12).

4
5 **3. Dire Financial Picture**

6 **Q. WHAT DID YOU STATE CONCERNING THE INCLUSION OF FPFTY**
7 **PLANT AND ITS EFFECT ON THE RATE OF RETURN AND RETURN ON**
8 **EQUITY?**

9 A. I described how the Company's inclusion of proposed FPFTY Plant in the
10 Company's September 30, 2017 QER, lowers the ROR and ROE, presents a dire
11 financial picture and limits the possibility of an overearnings investigation (I&E
12 Statement No. 5, p. 7).

13
14 **Q. DID THE COMPANY RESPOND TO YOUR TESTIMONY?**

15 A. Yes. The Company states that my testimony discussing the Company's September 30,
16 2017 desire to present a direr financial picture is without merit because at that time,
17 the Company was compiling a rate case, and the Company was certain rate relief was
18 justified (UGI Statement No. 1-R, pp. 5-6).

19
20 **Q. DOES THE COMPANY RESPONSE ADEQUATELY ADDRESS THE ISSUE**
21 **OF POSSIBLE OVEREARNING INVESTIGATIONS?**

1 A. It does not. My general point was that reducing the ROR and ROE by including
2 future plant in its QER limits the possibility of an overearnings investigation. While I
3 understand the Company was compiling a rate case during the time of the September
4 30, 2017 QER filing, my comment was not tied specifically to the that time period. It
5 was a more general comment that reducing the ROR and ROE, as was done in the
6 Company's September 2017 QER and would likely be done in future QERs, reduces
7 the likelihood of an overearnings investigation. It is my understanding that an
8 overearnings investigation can occur at any time; therefore, it is important that the
9 Company's practice of improperly including future plant not continue so that the
10 QERs accurately reflect the Company's actual financial picture for the identified
11 quarter. My testimony described a time without a pending rate case, which the
12 Company did not adequately address. With or without a pending rate case, the
13 Company's September 30, 2017 QER shows a direr financial picture than it would
14 have if the proposed FPFTY Plant were not included. Furthermore, this QER was
15 used in the Commission's analysis on the earnings of utilities, making the
16 Commission's analysis less reliable. Therefore, it should not have included proposed
17 FPFTY Plant but should have only reflected actual data for September 30, 2017.

18
19 **Q. WHAT DID YOU STATE CONCERNING THE IMPACT ON RATE OF**
20 **RETURN AND RETURN ON EQUITY IF FPFTY PLANT IS INCLUDED IN**
21 **THE COMPANY'S QUARTERLY EARNINGS REPORT?**

1 A. I described how the inclusion of FPFTY Plant dramatically reduces the overall ROR
2 and ROE in its September 30, 2017 QER. I also described how lowering the ROR and
3 ROE reported by UGI Electric would present a direr financial picture if there was an
4 impending rate case and limit the possibility of an overearnings investigation.
5 Additionally, a lower ROR and ROE also allows UGI Electric to be eligible for a
6 DSIC (I&E Statement No. 5, pp. 6-7).

7
8 **Q. HOW DID THE COMPANY RESPOND.**

9 A. To address the ROR and ROE issue, the Company claims that this rate case filing
10 was made by the Company less than 60 days after the submission of the QER.
11 Therefore, my testimony is incorrect and the QER at issue held no ratemaking
12 impact for the Company and as such there was no incentive for the Company to
13 overstate plant additions (UGI Statement No. 1-R, p. 6).

14
15 **Q. DOES THE COMPANY'S RESPONSE ADEQUATELY ADDRESS YOUR**
16 **TESTIMONY CONCERNING RATE OF RETURN AND RETURN ON**
17 **EQUITY?**

18 A. No. The Company missed the point of my direct testimony. My point was to
19 illustrate the ongoing problem with including FPFTY Plant in all QERs, not just the
20 September 30, 2017 QER. While it is true the Company filed a base rate case less
21 than 60 days after the submission of the September 30, 2017 QER, and the results
22 of that QER should be comparable with the rate case filing, which the September

1 30, 2017 is not, the Company failed to adequately repudiate the fact that in future
2 QERs, the ROR and ROE will be lower than they otherwise would be if the FPFTY
3 Plant is not included in the QERs.

4
5 **Q. PLEASE ADDRESS THE COMPANY'S CLAIM THAT YOUR RATIONALE**
6 **FOR THE COMPANY'S INCLUSION OF FPFTY PLANT ADDITIONS IN**
7 **THE QER IS INCORRECT?**

8 A. Again, the Company missed the point I was making and is, therefore, incorrect for
9 the reason stated above. The Company does have a financial incentive to report
10 lower ROR and ROE results in the future to be eligible for the DSIC or not subject
11 to an overearnings investigation.

12
13 **4. DSIC**

14 **Q. WHAT DID YOU STATE CONCERNING THE IMPACT OF A LOWER ROR**
15 **ON A UTILITY'S DSIC.**

16 A. I stated that a lower ROR allows UGI Electric to be eligible for a DSIC. Utilities that
17 earn more than the authorized ROR would have their DSIC reset to zero (I&E
18 Statement No. 5, p. 7). Therefore, it is critical for the QERs to not include additional
19 FPFTY Plant, which lowers ROR and ROE, thus not triggering a DSIC reset to zero
20 and invalidating this important customer safeguard.

1 **Q. DID THE COMPANY ADDRESS YOUR CONCERN REGARDING THE**
2 **IMPACT OF THE LOWER ROR REPORTED IN THE QER ON THE DSIC?**

3 A. Yes. The Company states that since it does not have a DSIC, my testimony discussing
4 the DSIC is incorrect (UGI Statement No. 1-R, p. 6).

5
6 **Q. DID THE COMPANY RESPONSE ADEQUATELY ADDRESS THE**
7 **RELATIONSHIP BETWEEN THE DSIC AND THE QER ROR?**

8 A. It did not. I understand the Company currently does not have a DSIC; however, my
9 testimony explains the important role the QER play with respect to DSIC.

10 Additionally, it is my understanding that the Company has filed an LTIP, which is
11 needed to implement a DSIC and could, therefore, implement a DSIC at any time.

12 Also, since the Company addressed the impact to the DSIC later in its testimony (UGI
13 Statement No. 1-R, pp. 11-12), it is unclear why the Company believes addressing

14 DSIC in this part of the testimony is improper. With or without a current DSIC, the
15 Company's September 30, 2017 QER that includes FPFTY Plant results in a lower

16 ROR and ROE. Therefore, the Commission should consider the customer protections
17 of the DSIC and not permit the inclusion of FPFTY Plant in future QERs because it

18 significantly impacts the ROR and ROE, which are the determining factors of whether
19 the DSIC must be reset at zero. As illustrated in my Direct Testimony, the impact is

20 dramatic because the ROR in the Company's filed QER for the Quarter Ending
21 September 30, 2017 was 4.94% and the ROE was 5.22%; however, when the

1 projected plant is removed, the ROR increases to 10.17% and the ROE increases to
2 14.9% (I&E St. No. 5, pp. 6-7).

3
4 **5. Accuracy of Projections**

5 **Q. WHAT DID YOU STATE CONCERNING THE UNSUPPORTED NATURE**
6 **OF PROJECTED PLANT AND THE INCLUSION OF SUCH PROJECTED**
7 **PLANT IN THE QUARTERLY EARNINGS REPORT?**

8 A. I described how speculative and unsupported the FPFTY Plant were in the
9 Company's September 30, 2017 QER. I also stated that the projections are not
10 reflective of the current financial position of the reporting utility. I described the 35%
11 difference between the projected plant accounts in the September 30, 2017 QER as
12 compared to the projected plant in this rate case (I&E Statement No. 5, p. 9).

13
14 **Q. DID THE COMPANY ADDRESS YOUR TESTIMONY?**

15 A. Yes. The Company provides the Oxford English dictionary definition of
16 "speculative" and argues that its projections are not speculative as they are based
17 upon budgeted and planned projects. The Company supports this claim by referred
18 to I&E Exhibit No. 5, Schedule 2 showing a break-down of plant projected to be
19 added in 2019. The Company also states that the Company's LTIP includes
20 projected DSIC eligible plant through 2022 (UGI Statement No. 1-R, p. 7). The
21 Company attempts to justify the 35% difference between the FPFTY Plant listed in

1 the September 30, 2017 QER and this rate base rate case as adjustments, corrections
2 and changes (UGI Statement No. 1-R, p. 8).

3
4 **Q. SHOULD THE COMMISSION RELY ON THE COMPANY'S CLAIM THAT**
5 **THE FPFTY PLANT ADDITIONS ARE BUDGETED AND, THEREFORE,**
6 **NOT SPECULATIVE?**

7 A. No. The simple fact is that budgeted amounts do not always result in actual plant in
8 service. The Company admits that there can be and recently were changes totaling
9 \$11,724,000 in the Company's budgeted amounts, changes in allocation factors and
10 changes in depreciation rates between the September 30, 2017 QER and this case
11 (UGI Statement No. 1-R, p. 8). Therefore, while a budget may reflect projections,
12 there is no guarantee that plant will be installed at the projected budgeted amount, be
13 depreciated at the projected rate, or be allocated using the projected methodology.
14 With so many variables admitted to by the Company, it is not reasonable to include
15 those projections in the QER, which is designed to give the Commission a current,
16 actual financial snapshot of the utilities it regulates. The Company's explanation for
17 the 35% difference in such a short time period supports my recommendation to not
18 allow any FPFTY Plant in the QERs. As described in my direct testimony, the
19 purpose of a QER is to establish uniform and industry-wide financial reporting
20 requirements designed so the Commission can monitor on a regular basis, the financial
21 performance and earnings of the electric, gas, telephone, water and wastewater public
22 utilities that are subject to Commission jurisdiction (I&E Statement No. 5, p. 4).

1 **Q. DID THE COMMISSION RELY ON THE COMPANY'S SEPTEMBER 30,**
2 **2017 QER REPORT?**

3 A. Yes. The Commission should expect reasonable accurate data in QERs to compile the
4 Commission QER. In this case, the Commission relied on the results of UGI
5 Electric's September 30, 2017 QER to compile its Quarterly Earnings Summary,
6 which less than two months later turned out to be substantially understated with
7 respect to ROR and ROE due to the Company's overly optimistic and inaccurate
8 inclusion of FPFTY Plant. To my knowledge, no corrected QER was ever provided
9 by UGI Electric to the Commission, so the overly optimistic level of plant and
10 substantially understated earnings still exists in the Commission's records. This
11 would not happen if UGI Electric provided only actual data in its QER, reflective of
12 actual quarterly earnings results. To prevent such inaccurate QER reports from being
13 filed with the Commission in the future, the Commission should not allow UGI
14 Electric to include FPFTY Plant in future QERs.

15
16 **Q. SHOULD THE COMPANY'S LTIP BE USED TO JUSTIFY THE**
17 **INCLUSION OF FPFTY PLANT ADDITIONS IN THE QUARTERLY**
18 **EARNINGS REPORTS?**

19 A. No. The LTIP is used to provide the Commission the Company's long-term plan on
20 plant additions that enables the Company to establish a DSIC. It is a separate
21 document with a different purpose. Just like the Company's budgeted amounts
22 describe above, there is no guarantee that all of plant listed will result in plant-in-

1 service at the time projected in the LTIP. Therefore, filing an LTIP does not justify
2 including FPFTY Plant in the QER.

3
4 **Q. DID THE COMMISSION ORDER APPROVING THE LTIP GRANT THE**
5 **COMPANY PERMISSION TO INCLUDE THIS PLANT IN ITS**
6 **QUARTERLY EARNINGS REPORTS?**

7 A. No. Again, the fact that the Commission has approved the Company's LTIP that is
8 required for the Company to implement a DSIC does not justify including FPFTY
9 plant in the QER.

10
11 **6. Act 11 and DSIC**

12 **Q. WHAT DID YOU STATE CONCERNING THE ONLY PORTION OF ACT 11**
13 **THAT DESCRIBES QUARTERLY EARNINGS REPORTS?**

14 A. I discussed that Act 11 did not address or modify the Chapter 71 QER reporting
15 requirements. The only portion of Act 11 that mentions QERs is in the section
16 addressing the DSIC reports (I&E Statement No. 5, p. 11).

17
18 **Q. DID THE COMPANY ADDRESS YOUR STATEMENT CONCERNING THE**
19 **ONLY PORTION OF ACT 11 THAT DESCRIBES QUARTERLY EARNINGS**
20 **REPORTS?**

21 A. Yes. The Company applies the use of the word "will" in that section to support its
22 contention that FPFTY adjustments are permissible in the QER because "will" is

1 forward looking (UGI Statement No. 1-R, p. 9). The referenced section of Act 11,
2 Section 1358(b)(3), is:

3 The distribution system improvement charge shall be reset
4 to zero if, in any quarter, data filed with the Commission in
5 the utility's most recent annual or quarterly earnings report
6 show that the utility will earn a rate of return that would
7 exceed the allowable rate of return used to calculate its fixed
8 costs under the distribution system improvement charge.
9

10 **Q. IS THE COMPANY'S INTERPRETATION OF THIS PORTION OF ACT 11**
11 **CORRECT?**

12 A. No, the Company's interpretation of the word "will" in that section is overreaching.
13 First, despite the fact that there is no reference to the FPFTY in the DSIC
14 section of Act 11, the Company is somehow arguing that the forward-looking
15 context of the word "will" somehow authorizes it to include FPFTY adjustments.
16 This unsupported leap to conclude that that word "will" somehow means it can
17 project out two years and include that projected plant in the QER is wholly
18 unsupported. Second, the word "will" refers to the current quarter, not FPFTY
19 Plant. For example, if a utility that is charging DSIC and including the DSIC
20 related revenue in its total revenue results in an overearning situation, the utility is
21 required to reset the DSIC to zero, so they no longer "will" overearn.

22
23 **Other Utilities QERs**

24 **Q. WHAT DID YOU STATE CONCERNING THE QUARTERLY EARNINGS**
25 **REPORTS FILED BY OTHER ELECTRIC DISTRIBUTION COMPANIES?**

1 A. In my direct testimony, I indicated that some electric utilities include FPFTY Plant
2 in their QERs and some do not. I surmised that this leads to inconsistencies in the
3 Commission's Quarterly Earnings Summary. (I&E Statement No. 5, pp. 13-14).

4
5 **Q. DO YOU HAVE ANY ADJUSTMENTS TO YOUR DIRECT TESTIMONY?**

6 A. Yes. In my direct testimony, I indicated that the only electric utilities that appear to
7 improperly project FPFTY Plant are UGI Electric and Duquesne Light, and that the
8 four First Energy Companies, PPL Electric, and PECO Electric do not include
9 projected adjustments in their QERs. Upon review of the September 2017 QERs from
10 each company, those need to be adjusted. The electric utilities that appear to
11 improperly include FPFTY Plant in their QERs are UGI Electric, and PECO Electric
12 made this improper inclusion for the first time in its September 30, 2017 QER. The
13 four First Energy Companies, PPL Electric and Duquesne Light did not include
14 FPFTY Plant in their QERs.

15
16 **Q. DID THE COMPANY ADDRESS YOUR STATEMENT CONCERNING THE**
17 **OTHER ELECTRIC DISTRIBUTION UTILITIES THAT INCLUDE FPFTY**
18 **PLANT IN ITS QUARTERLY EARNINGS REPORTS?**

19 A. Yes. The Company cites to other water and gas companies, including its own
20 affiliates, that include FPFTY Plant in their QERs (UGI Statement No. 1-R, p. 10).
21 The Company states that if modifications are necessary, a generic rulemaking
22 proceeding can be opened to provide all interest parties the opportunity to comment.

1 **Q. DOES IT MATTER THAT OTHER UTILITIES FROM OTHER**
2 **INDUSTRIES INCLUDE FPPTY PLANT IN THEIR QUARTERLY**
3 **EARNINGS REPORTS?**

4 A. No. Because this is an electric rate proceeding, my focus was on the electric
5 utilities. As previously discussed, six of the eight electric utilities properly exclude
6 FPPTY Plant in their QERs (I&E Statement No. 5, p. 13).

7

8 **Q. WHAT JUSTIFICATION DID THE COMPANY PROVIDE FOR**
9 **PROPOSING A RULEMAKING TO ADDRESS THE FPPTY PLANT IN**
10 **QUARTERLY EARNINGS REPORTS?**

11 A. The Company believes that my proposal is a “modification” and that such
12 “modification is better addressed in a proceeding that will provide all interested
13 parties the opportunity to comment on the methodology being used.” (UGI
14 Statement No. 1-R, p. 10). The Company also believes that my position is
15 inconsistent with a clear PUC regulation, and can only be adopted as part of a state-
16 wide proceeding to change or waive a regulation (UGI Statement No. 1-R, pp. 10-
17 11).

18

19 **Q. IS THE JUSTIFICATION THE COMPANY PROVIDED FOR PROPOSING A**
20 **RULEMAKING TO ADDRESS THE FPPTY PLANT IN QUARTERLY**
21 **EARNINGS REPORTS VALID?**

1 A. No. There is no reason to establish a rulemaking for this issue. A separate
2 rulemaking is not necessary given that 6 of the 8 electric utilities are filing their
3 QERs correctly. The Company is again arguing that this recommendation is not in
4 compliance with Act 11, which is simply untrue. I&E recognizes that the Company
5 can claim FPFTY Plant in a base rate proceeding, but that does not authorize it to
6 include that projected plant in its QER. The rationale described in my direct and this
7 surrebuttal illustrates why the issue is ripe for a decision and why the Commission
8 should decide the issue in this case. The inclusion of FPFTY Plant in QERs is
9 improper.

10

11 **Q. IS YOUR POSITION INCONSISTENT WITH A CLEAR PUC REGULATION**
12 **THAT CAN ONLY BE ADOPTED AS PART OF A STATEWIDE**
13 **PROCEEDING TO CHANGE OR WAIVE A REGULATION?**

14 A. No. As described in my direct and surrebuttal testimony, the Company's position is
15 without merit and contrary to the clear purpose of Chapter 71. Therefore, my
16 recommendation that the Company comply with Chapter 71 is not a "modification,
17 change or waiver" of any regulation as suggested by the Company, but a
18 recommendation that UGI Electric comply with Chapter 71, which does not allow
19 UGI Electric to include FPFTY Plant in QERs.

20

21 **Q. DO YOU HAVE ANY OTHER COMMENTS CONCERNING THE**
22 **COMPANY'S PROPOSAL TO ESTABLISH A SEPARATE PROCEEDING**

1 **TO ADDRESS THE FPPTY PLANT IN QUARTERLY EARNINGS**
2 **REPORTS?**

3 A. Yes. If the Commission ultimately agrees to a separate proceeding, then the
4 Commission should also order UGI Electric to cease including FPPTY Plant in its
5 QERs until the issue is decided by the Commission in the separate proceeding.
6

7 **Formal and Informal Complaints**

8 **Q. WHAT DOES THE COMPANY BELIEVE CONCERNING THE LACK OF**
9 **FORMAL OR INFORMAL COMPLAINTS AGAINST THE INCLUSION OF**
10 **FPPTY PLANT IN UGI'S QUARTERLY EARNING REPORTS?**

11 A. One rationale provided by the Company to justify including FPPTY Plant in its QERs
12 is that no formal or informal complaints were filed, (UGI Statement No. 1-R, page
13 4).
14

15 **Q. IS THE COMPANY'S RATIONALE CORRECT THAT I&E'S**
16 **RECOMMENDATION SHOULD BE REJECTED BECAUSE NO ONE FILED**
17 **A COMPLAINT AGAINST THE INCLUSION OF FPPTY PLANT IN UGI'S**
18 **QUARTERLY EARNING REPORTS.**

19 A. No. It is not clear who would have filed a complaint. If the Company is inferring that
20 a customer would have filed a complaint, there is no indication that a customer would
21 know about the Company's practice. As shown on I&E Exhibit No. 5, Schedule 1, the
22 Company's QER does not readily identify the \$55,265,000 plant adjustment as plant

1 projected to be added in the FPFTY. Therefore, any customer would have to take the
2 time to investigate this issue, understand the issue, and take the time to file a
3 complaint.

4
5 **Q. ARE ALL REGULATED UTILITY ISSUES RAISED OR RESOLVED BY A**
6 **CUSTOMER COMPLAINT?**

7 A. No. Regulated utility issues are not necessary raised or resolved by a customer
8 complaint. For example, the recent Commission Temporary Rates Order, Docket No.
9 M-2018-2641242, Order entered May 17, 2018, directing electric distribution
10 companies without current pending base rate cases to reduce customer's rate by over
11 \$210 million per year began with a secretarial letter (Temporary Rates Order, pages 1
12 and 14). Also, regulated utility issues are routinely resolved inside base rate cases
13 when they arise in a base rate proceeding.

14
15 **Other Policy Issues**

16 **Q. DID THE COMPANY RAISE OTHER POLICY CONCERNS IF YOUR**
17 **POSITION TO EXCLUDE FPFTY PLANT IN QUARTERLY EARNINGS**
18 **REPORTS IS ADOPTED?**

19 A. Yes. The Company believes that my position is inconsistent with the intent and
20 purpose of Act 11. That utilities like UGI Electric are moving forward to utilize its
21 LTIIP, and together with other utilities, are investing billions of dollars in
22 infrastructure. That the specific purpose of Act 11 was to eliminate regulatory lag

1 and allow utilities prompt recovery of investments. That Act 11 established FPPTY
2 and DSIC as permissible ratemaking methodologies. That my recommendation
3 stands to remove a key element supporting or eliminating the regulatory lag for
4 LTIPs. That investments will slow, aged infrastructure will not get replaced, will
5 lessen the effectiveness of the DSIC by imposing more stringent and unreasonable
6 earnings criteria, and ultimately dis-incenting the DSIC and incenting more frequent
7 and costly base rate cases. That my recommendation runs counter to the intent of
8 Act 11 and will only serve to increase regulatory inefficiency (UGI Statement No. 1-
9 R, pp. 11-12).

10
11 **Q. ARE YOU PUZZLED BY THIS SECTION OF THE COMPANY'S**
12 **TESTIMONY?**

13 A. Yes. I am not sure why the Company is addressing impacts to the DSIC in this
14 section when earlier in the Company's testimony, the Company was critical of my
15 discussion of the DSIC by stating "at this point in time, it is not possible for the
16 Company to be eligible for the DISC" (UGI Statement No. 1-R, p. 6). It appears that
17 this section of the Company's testimony is generic in nature. Therefore, my
18 surrebuttal of this section of the Company's testimony will also be generic.

19
20 **Q. IS YOUR POSITION INCONSISTENT WITH THE INTENT AND PURPOSE**
21 **OF ACT 11?**

1 A. No. If it were, the Company would have been able to cite to a specific provision in
2 Chapter 71 or Act 11 that allows FPFTY Plant to be include in the QERs, which it was
3 unable to do, or the secretarial letter described above and in my direct testimony that
4 would allow this practice. My position also complies with the intent of Act 11,
5 allowing utilities to utilize the FPFTY in base rate cases and allows the DSIC to
6 continue with the current customer protection provisions intact.

7

8 **Q. DO YOU AGREE WITH THE COMPANY THAT THE SPECIFIC PURPOSE**
9 **OF ACT 11 WAS TO REDUCE REGULATORY LAG?**

10 A. No. However, it was one of many provisions contained in Act 11. Other provisions
11 include the ability of water and wastewater utilities to make combined filings along
12 with the DSIC consumer protection provision.

13

14 **Q. DO YOU AGREE WITH THE COMPANY THAT YOUR**
15 **RECOMMENDATION WILL DIS-INCENT UTILITIES FROM MAKING**
16 **INVESTMENTS, INTERFERE WITH LTIIPS, AND DISALLOW THE**
17 **PROMPT RECOVERY OF INVESTMENTS?**

18 A. No. My recommendation does nothing to remove the ability of utilities to recover
19 plant through a base rate case or through a DSIC. Rather, my recommendation
20 provides for consistency in QERs and requires UGI Electric to report actual data in
21 QERs so that the Commission can assess the Company's current financial condition in
22 the quarter being reported.

1 **Q. IS THE COMPANY CORRECT THAT ACT 11 ESTABLISHED THE DSIC?**

2 A. No. The DSIC was established and utilized by water companies over 20 years ago. It
3 was recently expanded to include energy companies in Pennsylvania.

4

5 **Q. SHOULD THE COMMISSION ACCEPT THE COMPANY'S "DOOM AND**
6 **GLOOM" PREDICTION AS AN OUTCOME OF PROVIDING THE**
7 **COMMISSION A QER THAT REFLECTS THE COMPANY'S ACTUAL**
8 **FINANCIAL CONDITION FOR THE REPORTED QUARTER?**

9 A. No. The Company provided no proof or analysis that investments will slow, aged
10 infrastructure will not get replaced, the effectiveness of the DSIC will be lessened by
11 imposing more stringent and unreasonable earnings criteria, and ultimately dis-
12 incenting the DSIC and incenting more frequent and costly base rate cases. These
13 are just scare tactics to enable the Company to continue to improperly include FPFTY
14 Plant in its QER to improperly lower its ROR and ROE. Obviously, these points are
15 unsupported by the very fact that other utilities report actual quarterly earnings results
16 and still manage to utilize a DSIC to recover ongoing capital investments. I do not see
17 how filing accurate QERs that are limited to actual historic data will cause any of
18 these to occur, unless the Company is consistently overearning.

19

20 **Q. COULD YOUR RECOMMENDATION TO REQUIRE UTILITIES TO**
21 **PROVIDE THE COMMISSION A QER WITHOUT FPFTY PLANT IMPACT**
22 **THE EFFECTIVENESS OF THE DSIC?**

1 A. No. The Company's belief that the DSIC is only "effective" if utilities are permitted
2 to improperly include FPFTY plant in QERs, shows the absurdity and blatant attempt
3 by the Company to circumvent the customer protections built into the DSIC. The
4 purpose of the DSIC is to allow utilities to recover the cost of permissible plant
5 between rate cases, provided the utility is not overearning. The DSIC is not a "blank
6 check" for utilities expected to always be in effect no matter how much ROR and
7 ROE a utility is actually earning as suggested by the Company.

8
9 **Q. IS RESETTING THE DSIC A BAD THING, OR DOES IT CREATE THE**
10 **PROBLEMS DESCRIBED BY THE COMPANY?**

11 A. No. This consumer protection contained in the DSIC has been in place for over 20
12 years with no such dire results.

13
14 **Q. WHEN UGI ELECTRIC DESCRIBES LESSENING THE EFFECTIVENESS**
15 **OF THE DSIC BY IMPOSING MORE STRINGENT EARNINGS CRITERIA**
16 **AND DIS-INCENTIVIZING THE DSIC, WHAT ARE THEY REFERRING**
17 **TO?**

18 A. The Company is referring to my recommendation that will not allow utilities to
19 include FPFTY plant in the QER, which will lower the ROR and ROE so that these
20 are below the level that the Commission utilizes to determine that a utility is
21 overearning.

1 **Q. SHOULD THE COMMISSION ALLOW UTILITIES TO INCLUDE FPPTY**
2 **PLANT IN THEIR QUARTERLY EARNINGS REPORTS SO THAT A**
3 **UTILITY CAN HAVE AN “EFFECTIVE” DSIC?**

4 A. No. That would completely invalidate the overearning consumer safeguard that has
5 been in place for over 20 years.

6
7 **Q. WHEN UGI ELECTRIC DESCRIBES MORE FREQUENT AND COSTLY**
8 **BASE RATE CASES, WHAT IS THE COMPANY SAYING?**

9 A. Again, the Company is attempting a scare tactic by stating that if they are required to
10 provide QERs that reflect actual data that shows its current financial positions, they
11 may need to file more frequent cases. Considering that UGI Electric has not filed a
12 base rate case in 22 years, and has no DSIC, proves otherwise. Choosing between the
13 two, I believe more frequent base rate cases would certainly be better than allowing
14 UGI Electric to continue to improperly include FPPTY Plant in its QERs, to
15 improperly adjust its actual financial position by reflecting lower than actual ROR and
16 ROE results.

17
18 **Q. SHOULD THE COMMISSION ALLOW UTILITIES TO INCLUDE FPPTY**
19 **PLANT IN THEIR QUARTERLY EARNINGS REPORTS IF THAT**
20 **POTENTIALLY KEEPS UTILITIES FROM FILING BASE RATE CASES?**

21 A. No. There is no indication that this is occurring or will occur. For example, First
22 Energy which does not include FPPTY Plant in its QERs, utilizes the DSIC, and files

1 a base rate case approximately every three years. Another example is PPL, which like
2 First Energy, does not include FPFTY Plant in its QERs, utilizes the DSIC, and also
3 has filed base rate cases on three-year intervals, 2012 and 2015. Therefore, the
4 Company's position that utilities will file more frequent base rate cases if companies
5 are not permitted to include FPFTY Plant in QERs, is not based on reality.

6
7 **Q. PLEASE SUMMARIZE THE COMPANY'S POSITION CONCERNING**
8 **INCLUDING FPFTY PLANT IN THE QUARTERLY EARNINGS REPORTS.**

9 A. It is clear from this section of rebuttal testimony that the Company believes that the
10 only way a utility can utilize the DSIC is to allow inclusion of FPFTY Plant in its
11 QERs to show the Commission that the utility is not overearning.

12
13 **Q. SHOULD THE COMMISSION ACCEPT THE COMPANY'S POSITION**
14 **CONCERNING RELATED TO THE INCLUSION OF FPFTY PLANT IN**
15 **THE QUARTERLY EARNINGS REPORTS?**

16 A. No. I believe it would be in the public interest to follow the safeguards described in
17 the DSIC with regard to Company earnings.

18
19 **Q. DID THE COMPANY PROVIDE ANY JUSTIFICATION IN REBUTTAL**
20 **TESTIMONY THAT CAUSES YOU TO CHANGE YOUR POSITION**
21 **CONCERNING THE INCLUSION OF FPFTY PLANT IN THE QUARTERLY**
22 **EARNINGS REPORTS?**

1 A. No. Therefore, I recommend that UGI Electric not be permitted to include FPFTY
2 plant in its future Quarterly Earnings Reports.

3

4 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

5 A. Yes.

CERTIFICATE OF SERVICE

R-2017-2640058

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).

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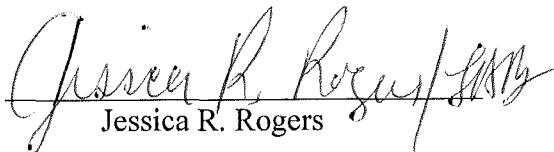
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