

COMMONWEALTH OF PENNSYLVANIA



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July 18, 2018

Rosemary Chiavetta, Secretary
PA Public Utility Commission
Commonwealth Keystone Bldg.
400 North Street
Harrisburg, PA 17120

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

Dear Secretary Chiavetta:

Attached for electronic filing please find the Office of Consumer Advocate's Reply Brief in the above-referenced proceeding.

Copies have been served per the attached Certificate of Service.

Respectfully submitted,

A handwritten signature in cursive script that reads "Hayley E. Dunn".

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Attachments

cc: Honorable Andrew Calvelli, ALJ
Honorable Steven K. Haas, ALJ
Certificate of Service

*254122

CERTIFICATE OF SERVICE

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

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

Dated this 18th day of July 2018.

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

REPLY BRIEF OF THE
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TABLE OF CONTENTS

I.	INTRODUCTION	1
	A. UGI Electric	1
	B. History of the Proceedings	1
	C. Legal Standards	2
II.	SUMMARY OF REPLY ARGUMENT	3
III.	STIPULATION OF PARTIAL SETTLEMENT	4
IV.	RATE BASE	5
	A. Original Cost Utility Plant in Service	5
	1. End of Year vs. Average Rate Base Methodology	5
	2. Electrical Engineering and Operations Center	8
	B. Accrued Depreciation	9
	C. Additions to Rate Base	10
	1. Cash Working Capital	10
	2. Materials and Supplies	10
	D. Deductions from Rate Base	10
	1. Accumulated Deferred Income Taxes (ADIT)	10
	2. Act 40	10
	3. Customer Deposits	10
	E. Cloud Based Program	10
	F. Unite Phase 2 Costs	11
	G. Conclusion as to Rate Base	11
V.	REVENUES	12
VI.	EXPENSES	13
	A. Vegetation Management Expense	13
	B. Company Owned Services Program	13
	C. Environmental Remediation Expense	13
	D. Storm Damage Expense	14
	E. Rate Case Expense	15
	F. Employee Expenses	15
	1. Salaries and Wages Net of Employee Additions	15

2. Employee Additions.....	16
3. Outside Services Employed	17
4. Employee Activity Costs	17
5. Allocated Stock Options and Restricted Stock Awards.....	17
G. Depreciation Expense	17
H. Other Post-Employment Benefits (OPEB)	17
I. Conclusion as to Expenses.....	17
VII. TAXES	18
A. Tax Cuts and Jobs Act of 2017 (TCJA).....	18
B. Excess Accumulated Deferred Income Taxes (EDIT).....	19
C. Act 40.....	21
VIII. FAIR RATE OF RETURN.....	24
A. Rate of Return Standards	24
B. Capital Structure	24
C. Cost of Long-Term Debt.....	24
D. Cost of Common Equity	24
1. The OCA’s Recommendation is Reasonable Given Current Market Conditions and Investor Expectations.....	24
2. OCA Witness Rothschild’s CAPM Analysis Provides a Reasonable Check on His DCF Results.....	27
3. The Company’s 11.25% Equity Cost Rate Should Be Rejected.....	27
E. Conclusion as to Rate of Return.....	28
IX. RATE STRUCTURE.....	28
A. Allocated Class Cost of Service Study	28
1. The Company’s Minimum System Approach is Flawed and the Company Improperly Classified Primary and Secondary Distribution Plant.....	29
2. The OSBA’s Technical Corrections to the Company’s ACCOSS and the OSBA’s ACCOSS are Flawed and Must be Rejected.....	30
3. The OCA’s Modifications are Appropriate and Well-Supported and the OCA’s ACCOSS Should Be Used as a Guide in This Proceeding.....	32
B. Revenue Allocation.....	34
C. Rate Design.....	38

1. Summary of UGI Electric’s Proposed Rate Design.....	38
2. Residential Customer Charge.....	38
a. The OCA’s Proposed Monthly Residential Customer Charge Includes Only Costs Appropriate to be Included in the Calculation of a Customer Charge and Properly Reflects Gradualism.	38
b. PPL’s Customer Charge and the Customer Charges of “Non-PUC-Jurisdictional” Electric Cooperatives are Not Relevant in This Proceeding.	41
c. UGI Electric’s Proposed Monthly Residential Customer Charge Will Harm Low-Income and Low-Use Customers.....	41
3. Non-Residential Customer Charges.....	43
D. Scale Backs.....	44
E. Summary and Alternatives.....	44
X. UNIVERSAL SERVICE.....	46
XI. MISCELLANEOUS ISSUES.....	47
A. Quarterly Earnings Reports.....	47
B. Public Input Hearings.....	47
XII. CONCLUSION.....	49

TABLE OF AUTHORITIES

	Page(s)
Cases	
<u>Berner v. Pa. PUC,</u> 116 A.2d 738 (1955).....	2
<u>Brockway Glass v. Pa. PUC,</u> 437 A.2d 1067 (Pa. Commw. 1981)	2
<u>Burleson v. Pa. PUC,</u> 461 A.2d 1234 (1983).....	2
<u>Lloyd v. Pa. PUC,</u> 904 A.2d 1010 (Pa Commw. 2004)	37
<u>Lower Frederick Twp. v. Pa. PUC,</u> 409 A.2d 505 (Pa. Commw. 1980)	2
<u>Philadelphia Elec. Co. v. Pa. PUC,</u> 502 A.2d 722 (Pa. Commw. 1985)	18
<u>Popowsky v. Pa. PUC,</u> 695 A.2d 448 (Pa. Commw. 1997)	18
<u>University of Pennsylvania v. Pa. PUC,</u> 485 A.2d 1217 (1984).....	2
Administrative Decisions	
<u>Application of Met-Ed Approval of Restructuring Plan Under Section 2806 of the Public Utility Code, 1998 Pa. PUC LEXIS 160 (1998).....</u>	37
<u>Pa. PUC v. Aqua Pa, Inc.,</u> Docket No. R-00072711, Order (July 31, 2008)	37
<u>Pa. PUC v. City of Dubois – Bureau of Water,</u> Docket No. R-2016-2554150 (Order entered May 18, 2017).....	37, 44
<u>Pa. PUC v. Duquesne Light Co.,</u> 1985 Pa. PUC LEXIS 68 (1985).....	30
<u>Pa. PUC v. Equitable Gas Co.,</u> 57 Pa. PUC 423 (1983).....	2
<u>Pa. PUC v. Metropolitan Edison Co.,</u> 60 Pa. PUC 349 (1985).....	39

<u>Pa. PUC v. National Fuel Gas Dist. Corp.,</u> 83 Pa. PUC 262 (1994)	39
<u>Pa. PUC v. North Heidelberg Sewer Co.,</u> 2013 Pa. PUC LEXIS 356 (Pa. PUC 2013)	40
<u>Pa. PUC v. Pa. Power & Light,</u> 55 P.U.R. 4th 185 (Pa. PUC 1983)	37
<u>Pa. PUC v. PPL Electric Utilities Corp.,</u> 237 P.U.R. 4th 419, 2004 Pa. PUC LEXIS 40 (December 2, 2004)	28
<u>Pa. PUC v. PPL Electric Utilities Corp.,</u> Docket No. R-2012-2290597 (Order entered December 28, 2012).....	26, 28, 37
<u>Pa. PUC v. West Penn Power Co.,</u> 59 Pa. PUC 552 (1985)	39
<u>Pa. PUC v. West Penn Power Co.,</u> 1994 Pa. PUC LEXIS 144 (1994).....	39
<u>Tax Cuts and Jobs Act of 2017,</u> Docket No. M-2018-2641242 (Order entered May 17, 2018).....	18, 19
Statutes	
1 Pa. C.S § 1921(b)	22
66 Pa. C.S. § 315(e)	6
66 Pa. C.S § 1301.1	21
Other Authorities	
<u>American Heritage Dictionary, Houghton Mifflin Co. (1985).....</u>	37

I. INTRODUCTION

A. UGI Electric

As detailed in the Main Brief of the Office of Consumer Advocate (OCA) UGI Utilities, Inc. – Electric Division (UGI Electric, UGI, UGI-E, or the Company) requests that the Public Utility Commission (Commission) approve its revenue increase request of \$8.092 million, which reflects revisions to the Company’s initial claim of \$9.254 million and its subsequent claim of \$8.491 million. See OCA M.B. at 1; UGI St. 1 at 3; UGI St. 2SD at 3, UGI St. 2R at 5. UGI Electric also requests a 250% increase in its monthly Residential customer charge and an 11.25% return on common equity. UGI St. 8 at 16; UGI St. 5SD, Exh. PRM-2.

The OCA submits, *inter alia*, that the Company’s claim requires adjustments in the areas of accounting, rate of return, and rate structure/rate design. The OCA submits that an overall distribution revenue increase in the amount of \$2.137 million is appropriate. The OCA further submits that an \$8.00 monthly Residential customer charge is appropriate and that the Company should be permitted to earn a 6.75% overall rate of return reflecting an 8.5% return on equity.

B. History of the Proceedings

The procedural history is set forth in the OCA’s Main Brief. See OCA M.B. at 2. On July 2, 2018, the OCA, the Commission’s Bureau of Enforcement and Investigation (I&E), the Office of Small Business Advocate (OSBA), and UGI Electric filed separate Main Briefs. Subsequently, on July 9, 2018, the ALJs requested that the parties submit updated versions of Tables I and II following the format provided by the Bureau of Technical Utility Services (TUS). The OCA’s revised Tables are attached to this Reply Brief as Appendix A.

C. Legal Standards

As detailed in the OCA's Main Brief, UGI Electric must affirmatively establish the justness and reasonableness of every component of its rate increase request. See OCA M.B. at 3-4; see also Lower Frederick Twp. v. Pa. PUC, 409 A.2d 505 (Pa. Commw. 1980); Brockway Glass v. Pa. PUC, 437 A.2d 1067 (Pa. Commw. 1981); Burleson v. Pa. PUC, 461 A.2d 1234 (1983). It is unnecessary for the OCA, or any other challengers, to prove that the Company's proposed rates are unjust, unreasonable, or not in the public interest. See Berner v. Pa. PUC, 116 A.2d 738 (1955); see also Pa. PUC v. Equitable Gas Co., 57 Pa. PUC 423 (1983); University of Pennsylvania v. Pa. PUC, 485 A.2d 1217 (1984). Accordingly, in order to prevail in this proceeding, the OCA is required only to show that UGI Electric failed to meet its burden of proof. In this Reply Brief and the OCA's Main Brief, the OCA demonstrates why UGI Electric failed to meet its burden in establishing the justness and reasonable of its claim.

II. SUMMARY OF REPLY ARGUMENT

In this Reply Brief, the OCA responds primarily to the arguments raised in the Main Brief of UGI Electric. The OCA notes that many of the arguments raised by the Company were fully addressed in the OCA's Main Brief and will not be repeated here. The OCA further notes that no averments in any of the parties' Main Briefs alter the OCA's position in this proceeding. The OCA continues to submit that UGI Electric has not met its burden of proof for a number of claims set forth in support of its revenue increase request. The Company's request requires adjustments in the areas of accounting, rate of return, and rate structure/rate design. Based upon expert witnesses testimony, the OCA submits that an overall distribution revenue increase of \$2.137 million is justified based on a 6.5% overall rate of return. This amount reflects necessary adjustments as well as a return on equity of 8.5% in consideration of the stipulated capital structure. The OCA's recommended increase allocated to customers in the manner discussed in this Reply Brief and the OCA's Main Brief results in just and reasonable rates. A summary of the OCA's adjustments are provided in its revised Tables. See Appendix A.

III. STIPULATION OF PARTIAL SETTLEMENT

As discussed fully in the OCA's Main Brief, the OCA supports the following provisions of the June 20, 2018 Partial Stipulation Resolving Certain Contested Issues (Partial Stipulation) and submits that these provisions are in the public interest: Capital Structure, Depreciation Rates, withdrawal of the Electric Vehicle (EV) Rider, withdrawal of the Storm Expense Rider, and Universal Service Program provisions. See OCA M.B. at 8-12. The OCA took no position on the issues of the Pennsylvania Public Utility Realty Tax (PURTA), the Cloud Based Program, and UNITE Phase 2 Costs. See OCA M.B. at 10, 11-12. As such, the OCA does not oppose the PURTA provision and the Miscellaneous Accounting Issues provision of the Partial Stipulation. See OCA M.B. at 10, 11-12. The OCA respectfully requests that the Commission approve the June 20, 2018 Partial Stipulation in its entirety.

IV. RATE BASE

A. Original Cost Utility Plant in Service

1. End of Year vs. Average Rate Base Methodology

As discussed in the OCA's Main Brief, prior to the passage of Act 11 and the utilization of a fully projected test year, the test year upon which rates were established ended at approximately the same time that new rates became effective. See OCA M.B. at 13-19; OCA St. 1 at 7. Under UGI-E's approach here, however, "Adjusting costs to end of rate year levels and beyond would result in UGI-E recovering costs from ratepayers that are in excess of the costs that will be incurred during the rate year." OCA St. 1 at 8. Similarly, I&E witness Ethan Cline testified that allowing the Company to use the September 30, 2019 year-end plant-in-service as proposed by UGI-E could result in customers paying, for approximately eleven months, rates that include costs for projects and plant that are not in service and used or useful to those customers. I&E St. 3 at 7. I&E witness Cline summarized the impact on ratepayers, where he testified, "Requiring customers to pay a return of and on plant investments that will not occur for almost one year does not produce just and reasonable rates for ratepayers." I&E St. 3 at 8.

To remedy this problem, the OCA submits that rates must be set based on the average rate base projected to be used and useful in the fully projected future test year. The average rate base measures the net investment in facilities to provide utility service over the course of the year, rather than as of a point in time as of the end of the year. It is internally consistent with the measurement of expenses, billing determinants, and income over the course of the year to use an average rate base. Using an average rate base properly matches the calculation of rate base with the other elements of the Company's revenue requirement and income in a given year.

In its Main Brief, the Company argued that the use of end of FPFTY rate base is appropriate for three primary reasons. UGI M.B. at 25-34. As detailed below and in the OCA's Main Brief, each of these reasons must fail. First, the Company argued that rates are designed to collect an annual revenue requirement, collected over 12 monthly increments. UGI M.B. at 27. This issue as raised by the Company is not in dispute here. Under the Company's proposed end of year rate base methodology, the Company will collect a return on plant not in service and, therefore, not part of its annual revenue requirement, in the FPFTY. To bolster this argument, the Company went on to argue that even under an average rate base approach customers will pay too much on October 1, 2018, relative to the average rate base. UGI M.B. at 27. What the Company omitted is the fact that at some point during the first year of new rates, the balance of plant placed in service will pass the average. For the full year, however, ratepayers will pay rates that reflect actual costs as projected in the FPFTY. The OCA and I&E recommended averaging approach produces rates that more closely align with the annual revenue requirements for the test year.

The Company further argued that a plain reading of Act 11 requires an end of FPFTY rate base to be utilized for setting rates. UGI M.B. at 28-29. The OCA submits that the Act clearly states that "the Commission may permit facilities which are projected to be in service during the fully projected future test year to be included in the rate base." 66 Pa. C.S. §315(e). The use of an average rate base meets this standard in a more precise way than the use of end of year rate base. The OCA submits that the language of Act 11 does not specify the manner by which plant projected to be in service is to be included in rates. More importantly, as both OCA witness Morgan and I&E witness Cline testified, the average rate base methodology permits a

more accurate level of plant additions to be included during the test year. See OCA St. 1 at 6-9; I&E St. 3 at 6-10.

Finally, the Company offered policy reasons to support utilization of its preferred methodology. UGI M.B. at 30-34. These policy issues do not, however, address the primary flaw in the use of an end of year rate base methodology, *i.e.*, the collection through rates of costs that have not been incurred during the FPFTY.

OCA witness Morgan addressed these primary concerns in testimony as follows:

Q. UGI-E WITNESS MEGAN MATTERN DISAGREES WITH YOUR ADJUSTMENT TO USE AVERAGE PLANT BALANCES FOR THE FULLY PROJECTED FUTURE TEST YEAR. PLEASE COMMENT.

A. Ms. Mattern disagrees with my adjustment and cites three reasons for the disagreement. I will address each of the arguments she has made in support of the end of FPFTY. First, she states that rates from this proceeding take effect in October of this year, and that those rates are likely to be in effect for three or more years thereafter. As a result, she believes the end of FPFTY amounts more accurately reflects plant investment during the time rates will be in effect. Second, she indicates that prior to Act 11 of 2012, end of test year plant balances were routinely accepted and the year-end balance was not challenged as an acceptable basis for ratemaking. Third, she states that the use of average plant in service complicates the alignment of test year plant with test year accumulated deferred income tax (ADIT), accumulated depreciation, annualized depreciation expense, and the annualization of revenues and expenses.

The Commission should reject the arguments made by Ms. Mattern for the following reasons. These arguments are flawed because the length of time the new rates remain in effect is not a reason to use the end of period amounts that Ms. Mattern uses. The test year is selected by the Company and adjusted to derive a representative level of costs to provide service. As I explained in my direct testimony, the use of the average test year prevents the Company from recovering costs before those costs are incurred. Regarding the past practice of using end of period rate base, that practice was allowed because only a partially forecasted future test year was used, and that future test year ended at approximately the same

time that rates were scheduled to take effect. Hence, the over collection problem was not a major concern. Finally, Ms. Mattern indicates the use of the average FPFTY balance makes the synchronization of rate base components complicated. The complexity of the calculation is not a reason use an improper method of calculating rate base. Therefore, this argument should be rejected.

OCA St. 1S at 3-4. For these reasons, the Company's policy objections must be rejected.

The OCA submits that the reasons offered by the Company in support of utilizing an end of year rate base in the FPFTY do not justify requiring ratepayers to overpay the revenue requirement. If the end of FPFTY rate base is used to set rates, ratepayers will be forced to pay in rates on October 27, 2018 for a return on rate base that is not used and useful. The OCA submits that, for the reasons above and those detailed in the OCA's Main Brief at 13-19, the average rate base must be used.

2. Electrical Engineering and Operations Center

As discussed in the OCA's Main Brief, the Company made a claim for \$10 million for an Electric Engineering and Operations Center that was later updated to \$17.3 million based on a "more comprehensive estimate" of expected costs. See OCA M.B. at 19-21; UGI St. 3R at 17. OCA witness Morgan testified that the updated information demonstrated that the \$17.3 million cost estimate was speculative and that the Company's Confidential UGI Electric Exhibit EWS-8 raised serious concerns about the completion of the project during the FPFTY. OCA St. 1S at 2. As a result, OCA witness Morgan recommended that the proposed center should be removed from plant in service. OCA St. 1S at 3.

In its Main Brief, the Company essentially argued that, because the FPFTY extends almost two years beyond the original budget, it is not surprising that estimates may be speculative. UGI M.B. at 36-37. The Company also argued that is familiarity with the proposed

facility location and the fact that there are limited locations to construct the proposed facility in UGI's service territory make its plans more certain. UGI M.B. at 37.

The OCA submits that none of these arguments allay the clear concerns raised by OCA witness Morgan, namely that the Company's positive assessment of UGI's ability to begin utilizing the Electric Engineering and Operation Center prior to the end of the FPFTY is not sufficient to include the cost in rates. While there may be some level of uncertainty projecting into a FPFTY, the only preliminary budgeted amount modified in this proceeding was the Electric Engineering and Operation Center. Tr. at 99-104. The Company has not followed any disciplined budgeting process in making the significant changes proposed here. Tr. at 99-105. Additionally, as of the date of the evidentiary hearing, there was no formal agreement to purchase the property and no contractors had been hired to do the remodeling and site preparations needed to complete the Electric Engineering and Operation Center. Tr. at 105. As such, the OCA submits that the Company has not sufficiently demonstrated that the Electric Engineering and Operation Center will be in operation in the FPFTY and, therefore, an adjustment to the Company's claimed plant in service should be made to remove \$17.3 million from plan in service in the FPFTY.

B. Accrued Depreciation

As discussed fully in the OCA's Main Brief, UGI Electric based its rate year depreciation expense on the projected balance at the end of the FPFTY, September 30, 2019, and the OCA submits that the annualized depreciation expense must be adjusted to account for the average rate base in the FPFTY. See OCA M.B. at 21. I&E echoed this argument in its Main Brief. See I&E M.B. at 25-26. Specifically, I&E argued that accumulated depreciation expense should be "based on the average rate base methodology" and "determined by taking the average of the

company's accumulated depreciation for the FTY ending September 30, 2018 and the Company's rebuttal accumulated depreciation for the FPFTY ending September 30, 2019." I&E M.B. at 25. Accordingly, OCA submits that Company should base its depreciation expense on average plant in service in the FPFTY.

C. Additions to Rate Base

1. Cash Working Capital

As noted in the OCA's Main Brief, the OCA takes no position on this issue.

2. Materials and Supplies

As noted in the OCA's Main Brief, the OCA takes no position on this issue.

D. Deductions from Rate Base

1. Accumulated Deferred Income Taxes (ADIT)

As discussed fully in the OCA's Main Brief, UGI Electric calculated the Accumulated Deferred Income Taxes (ADIT) at the end of year levels in determining its FPFTY rate base claim and the OCA submits that the amount of ADIT deducted from the Company's rate base should, instead, be calculated at the average balances during the rate year. See OCA M.B. at 22-23. The OCA's net adjustment to rate base, including the ADIT adjustment (plus plant in service and accumulated depreciation), is \$10.953 million. See OCA St. 1, Schedule LKM-4.

2. Act 40

The OCA addresses arguments raised regarding Act 40 in Section VII.C herein.

3. Customer Deposits

As noted in the OCA's Main Brief, the OCA takes no position on this issue.

E. Cloud Based Program

A partial stipulation has been reached as to this issue. See OCA M.B. at 11-12.

F. Unite Phase 2 Costs

A Partial Stipulation has been reached as to this issue. See OCA M.B. at 11-12.

G. Conclusion as to Rate Base

As discussed above and in the OCA's Main Brief, the OCA recommends adjustments resulting in a cumulative downward adjustment to UGI's proposed rate base in the amount of \$22.067 million relative to the original filing. OCA St. 1, Sch. LKM-2. Additionally, the OCA submits that rate base should be adjusted downward by \$10 million relative to the original filing, or \$17.3 million as compared to the Company's revised request, due to the speculative nature of the proposed Electric Engineering and Operations Center. OCA St. 1S at 1-3.

V. REVENUES

As discussed fully in the OCA's Main Brief, the OCA identified \$158,000 of revenue resulting from the Hanover Industrial Park primary underground distribution system expansion that was not included in the FPFTY and made an adjustment of \$158,000 to reflect the associated revenue. See OCA M.B. at 25; OCA St. 1 at 15, 16; OCA St. 1, Schedule LKM-7. The Company agreed, as noted in its Main Brief, that the FPFTY budget sales and revenues did not include the additional sales and revenues associated with the project and, accordingly, it incorporated this adjustment in its revised revenue requirement request. UGI M.B. at 42-43.

VI. EXPENSES

A. Vegetation Management Expense

As noted in the OCA's Main Brief, the OCA takes no position on this issue.

B. Company Owned Services Program

In its Main Brief, UGI Electric correctly noted that the OCA does not oppose the proposed Company Owned Services (COS) Program and indicated that it accepts the OCA's recommendations. UGI M.B. at 48; see OCA M.B. at 27. The Company stated that it will recover only expenses related to the program. UGI M.B. at 48. The Company also stated that it will work toward developing alternatives to terminating service when customers do not grant access to COS equipment and that "there should be no need to terminate electric service." UGI M.B. at 48. Further, the Company stated that it is willing to coordinate the program with the Commission's Bureau of Consumer Services (BCS) and the OCA. UGI M.B. at 48.

As discussed fully in the OCA's Main Brief, the OCA does not oppose COS Program or the Company's associated expense as the program aims to correct a unique safety issue. See OCA M.B. at 26-27. The OCA submits that the Commission should approve the COS Program and the full amount of the Company's expense claim for the program provided that the Commission (1) prohibits the Company from earning a profit from the program, (2) prohibits the termination of service in conjunction with the program, and (3) requires the Company to coordinate with BCS and the OCA in implementing and executing the program.

C. Environmental Remediation Expense

In its Main Brief, UGI Electric argued, generally, that the sale of the land to be remediated is not relevant to the recovery of the environmental remediation costs. UGI M.B. at 54. As such, the Company stated that it disagrees with the OCA's recommendation to remove

the environmental remediation expense from the cost of service and reduce the O&M expense by \$139,000 to reflect the impact of remediation on the value of the land on sales. UGI M.B. at 54.

As explained in the OCA's Main Brief, there is a direct correlation between the remediation costs and the sale of the property. See OCA M.B. at 29-30. OCA witness Morgan noted that "without the remediation, the sale of the property would be impaired" and that "it is appropriate to recover the cost of remediation [from] the sales proceeds rather than to pass those costs onto ratepayers." OCA St. 1S at 5; OCA St. 1 at 17. I&E also agrees that remediation costs "should be recovered from the sales proceeds of the associated property." I&E M.B. at 42.

In addition, OCA witness Morgan provided that the Company should reduce the gain on the land by the remediation costs by making a \$139,000 reduction to O&M expenses. OCA St. 1 at 17; OCA St. 1, Schedule LKM-8. OCA witness Morgan noted that "it is appropriate to reduce the gain on the land by the remediation cost because without the remediation the value of the land on the sale would decline." OCA St. 1 at 17. I&E also agrees that the "gain on the sale of the property could be reduced by the cost of remediation and that the revenue requirement should be reduced by the \$139,000 claim." I&E M.B. at 420.

Accordingly, the OCA submits that the Commission should accept the OCA's recommendation that the remediation costs should be removed from the cost of service and not recovered from ratepayers. OCA St. 1 at 17. The OCA further submits that the Commissions should accept the OCA's adjustment to reduce O&M expenses by \$139,000. See Appendix A.

D. Storm Damage Expense

In its Main Brief, UGI erroneously stated that "I&E is the only party that has filed testimony contesting the appropriate level of normalized storm expense to be reflected in this case." UGI M.B. at 55. The Company pointed to OCA witness Mierzwa's testimony addressing

the Storm Damage Expense Rider (SDER), which has been eliminated per the Partial Stipulation, but overlooked OCA witness Morgan’s testimony regarding adjustments to the Company’s claimed storm damage expense. UGI M.B. at 55, n. 13.

As discussed fully in the OCA’s Main Brief, the OCA recommends that the storm damage expense be reduced to \$114,000 annually.¹ See OCA M.B. at 30-32. OCA witness Morgan explained that the Company presented a multi-year average, which is “used to normalize storm expenses that occur frequently and have a high degree of variability from one year to the next,” although there were only two storms – one in 2014 and another in 2017. OCA St. 1 at 19-20. He stated that the 2014 storm cost should not be included as it “serves to skew costs upward” and “has the effect of retroactive recovery . . . since there are no other storm costs besides 2017 because of the infrequent storm occurrence.” OCA St. 1 at 20.

Therefore, the OCA submits that the Commission should accept the OCA’s adjustment to remove the 2014 storm cost and reduce the claimed storm damage expense to an annualized level of \$114,000. See Appendix A.

E. Rate Case Expense

As noted in the OCA’s Main Brief, the OCA takes no position on this issue.

F. Employee Expenses

1. Salaries and Wages Net of Employee Additions

The OCA addresses this issue in Section VI.F.2 herein.

¹ In the OCA’s Main Brief, the OCA stated that the storm damage expense should be reduced by \$161,000 to \$114,000 annually. OCA M.B. at 31, 32; OCA St. 1 at 20. The OCA inadvertently used the Company’s initial claim in this calculation. Based on the Company’s revised claim, the storm damage expense should be reduced by \$186,000 to \$114,000 annually. See Appendix A.

2. Employee Additions

In its Main Brief, UGI Electric stated that it disagrees with the OCA's adjustment to reduce the employee addition expense to reflect the date of employment. UGI M.B. at 60. The Company argued only that the OCA's adjustment is based on the calculation of the FPFTY using an average rate base method. UGI M.B. at 60. The Company also indicated that it disagrees with I&E's comparable adjustment to this expense on the same basis. UGI M.B. at 60.

As explained in the OCA's Main Brief, it is appropriate to adjust the costs related to the employee additions to reflect the costs incurred during the FPFTY based on the date of employment – December 1, 2018. See OCA M.B. at 32-34. Instead, the Company based its claim on a full year of costs. OCA witness Morgan noted that “adjusting costs to year end levels is not appropriate now that a FPFTY is being used to establish rates” and that “adjusting costs to end of rate year levels . . . would result in UGI-E recovering costs from ratepayers that are in excess of the costs that will be incurred during the rate year.” OCA St. 1 at 7-8.

I&E's position on this issue echoes that of the OCA. Specifically, in its Main Brief, I&E stated: “The Company assumes the positions will be filled *by* December 1, 2018; but, its claim is based on a *full year's* worth of expense (salaries, wages, and incentive compensation) for the positions.” I&E M.B. 48 (emphasis in original). I&E further stated that “the FPFTY expense allowance [should] be based on the actual amounts incurred across the FPFTY period and not an annualization of the end-of-year inflated projections.” I&E M.B. at 48.

Accordingly, the OCA submits that the Commission should accept the OCA's adjustment to the employee addition expense to reflect the costs incurred during the FPFTY based on the December 1, 2018 date of employment. See OCA St. 1, Schedule LKM-9.

3. Outside Services Employed

As noted in the OCA's Main Brief, the OCA takes no position on this issue.

4. Employee Activity Costs

As noted in the OCA's Main Brief, the OCA takes no position on this issue.

5. Allocated Stock Options and Restricted Stock Awards

As noted in the OCA's Main Brief, the OCA takes no position on this issue.

G. Depreciation Expense

A Partial Stipulation has been reached as to this issue. See OCA M.B. at 8-9.

H. Other Post-Employment Benefits (OPEB)

As noted in the OCA's Main Brief, the OCA takes no position on this issue.

I. Conclusion as to Expenses

For the reasons set forth above and in the OCA's Main Brief, the OCA respectfully requests that the Commission approve the COS Program and the full amount of associated expense provided that the Commission's order states that UGI Electric is prohibited from earning a profit from the program, prohibited from terminating service in conjunction with the program, and required to coordinate with BCS and the OCA in implementing and executing the program. The OCA further requests that the Commission (1) reject the Company's environmental remediation expense in its entirety and accept the OCA's adjustment to reduce O&M expense by \$139,000, (2) reduce the claimed storm damage expense to an annualized level of \$114,000, and (3) adjust the employee additions expense to reflect the December 1, 2018 date of employment.

VII. TAXES

A. Tax Cuts and Jobs Act of 2017 (TCJA)

In its Main Brief, the Company argued that returning 2018 tax savings resulting from the TCJA constitutes retroactive ratemaking (UGI M.B. at 108, 111), although, as it pertains to the TJCA, the Commission has explicitly held that, “there is no legal impediment to our present consideration of the substantial tax savings from the TCJA . . . and its effect on the justness and reasonableness of consumer rates.” Tax Cuts and Jobs Act of 2017, Docket No. M-2018-2641242 (Order entered May 17, 2018) (May Order).

As discussed fully in the OCA’s Main Brief, extraordinary, substantial, and non-recurring expenses are the classic exception to single-issue and retroactive ratemaking claims. See OCA M.B. at 37-40. In Philadelphia Elec. Co. v. Pa. PUC, 502 A.2d 722, 728 (Pa. Commw. 1985), which the Commission cited in its May Order, the Commonwealth Court stated that “an exception to [the rule against retroactive ratemaking] in the case of retroactive recovery of unanticipated expenses has been recognized where the expenses are extraordinary and nonrecurring.” In Popowsky v. Pa. PUC, 695 A.2d 448 (Pa. Commw. 1997), the Commonwealth Court applied this exception when it permitted retroactive ratemaking where a change in accounting standards imposed substantial expenses that could not have been anticipated at the time of the prior base rate case. The Commission correctly recognized this exception in its May Order. Specifically, the Commission stated:

While ratemaking is generally *prospective* in nature, an exception to this rule applies in the case of expenses that are extraordinary, substantial and nonrecurring. *Philadelphia Electric Co. v. Pa. Public Utility Commission*, 502 A.2d 722 (Pa. Cmwlth. 1985). In this regard, we agree with the OCA that the TCJA tax savings represent “an extraordinary and substantial, non-recurring reduction in utility expenses that should be treated outside of a

general rate proceeding and flowed back to ratepayers.” OCA Comments at 1 and 7.

May Order at 15 (emphasis in original). As such, the Commission held that “tax savings and associated reductions in utility revenue requirements should be flowed back to consumers.” Id.

I&E agrees with the OCA that the Company’s claims regarding retroactive ratemaking are without merit. I&E M.B. at 55-62. I&E noted that it “rejects this argument and that the Commission rejected it as well” citing the Commission’s May Order. I&E M.B. at 60. I&E further noted that, “there is no legal impediment (of which, single-issue ratemaking would be one) to the Commission’s consideration of the substantial tax savings from the TCJA.” I&E M.B. at 60. I&E also pointed out that the “Commission concluded, ‘a negative surcharge is both lawful and appropriate means to recognize the TJCA tax rate changes and their effect on consumer rates.’” I&E M.B. at 60 (citing May Order at 16).

Therefore, the OCA submits that the Commission must reject the Company’s claims regarding retroactive ratemaking and require UGI Electric to implement a retroactive surcharge or other similar mechanism, such as one-time bill credit, to timely return the 2018 tax savings to customers consistent with its May Order.

B. Excess Accumulated Deferred Income Taxes (EDIT)

In its Main Brief, UGI Electric claimed that Excess Accumulated Deferred Income Taxes (Excess ADIT or EDIT) should not be considered in calculating its rate base, although the Company acknowledged in Rebuttal Testimony that “Commission precedent requires that amounts recorded as ADIT be deducted from rate base.” UGI M.B. at 124-125, UGI St. 9R at 9. Generally, the Company argued that Excess ADIT is no longer ADIT. UGI M.B. at 124-125.

As discussed fully in the OCA’s Main Brief, however, although the Company has changed the name of the account in which the funds are held, the funds are still restricted as

protected ADIT, and ratepayers should not be penalized by failing to reflect the EDIT as an offset to rate base. See OCA M.B. at 43; OCA St. 1 at 13. OCA witness Morgan explained that, “even as they are now considered to be excess deferred taxes and transferred to a regulatory liability account, these funds are still restricted by the tax provision that now requires that they be flowed back to ratepayers using the ARAM” and that, “even though they are now placed in an account by another name, they are still treated as protected ADIT and have not been fully returned to ratepayers.” OCA St. 1 at 11. The Company’s failure to reflect the EDIT as an offset to rate base results in an increase in the rate base of approximately \$11 million. OCA St. 1 at 13.

OSBA agrees with the OCA that “the rate base treatment of Excess ADIT should follow that of ADIT, and that Excess ADIT should be recognized as an offset to rate base.” OSBA M.B. at 16. OSBA noted, “In effect, the Company is claiming that the rate base effect of the windfall it received from the TCJA should also result in an increase in both rate base and rates.” OSBA M.B. at 14. Further, OSBA pointed out that there is no precedent to support the Company’s proposed treatment of EDIT. OSBA M.B. at 14-15

In addition, I&E agrees that the Company should “reduce rate base . . . for the excess ADIT balance.” I&E M.B. at 30. I&E noted, “The Company acknowledged that Commission precedent requires that amounts recorded as ADIT be deducted from rate base.” I&E M.B. at 31 (footnote omitted). Further, in response to the Company’s argument that “excess deferred taxes are not ADIT,” I&E explained:

The excess ADIT monies were originally built into the rate formula to cover future income tax payments to the government. The fact that this money (i.e., the excess ADIT) is no longer due in future income tax payments but is now due to ratepayers via a refund over the remaining useful life of the affected plant, does not change the fact that the Company has received this money from ratepayers in prior years, which has been available for infrastructure improvements. Each regulatory asset or liability

needs to be reviewed base on its own merits to determine whether it should be an addition/reduction to rate base. In this instance, the original intent should be considered, and that is that the funds were an interest-free loan from the government (taxes due at some point in the future), and now due to the reclassification, they money is basically an interest-free loan from ratepayers. I&E asserts that ratepayers should not be required to pay the Company a return on this balance during the time it takes to refund the money to them.

I&E M.B. at 31-32 (footnotes omitted).

Therefore, the OCA submits that EDIT should be reduced from rate base and that the Commission should reduce the Company's rate base by \$10.876 million to reflect the inclusion of the regulatory liability. See OCA St. 1, Schedule LKM-5.

C. Act 40

In its Main Brief, the Company addressed its treatment of consolidated tax savings relative to the requirements of Act 40 of 2016, 66 Pa. C.S § 1301.1. UGI M.B. at 127-133. Under Act 40, UGI Electric is not required to adjust its revenue request to reflect the consolidated tax adjustment (CTA) savings associated with filing taxes under its parent company. UGI Electric argued that the treatment of consolidated taxes is now consistent with 46 jurisdictions. UGI M.B. at 128, 129. The Company further argues that the OCA "should accept the fact" that the Pennsylvania General Assembly eliminated the CTA. UGI M.B. at 128.

The OCA submits that the plain language of Act 40 provides for a transition to the elimination of the CTA. The Company essentially argued that Pennsylvania is now on par with the majority of jurisdictions. The OCA submits, however, that if that were the case, there would have been no need for the transition ratemaking and accounting treatments of consolidated tax treatment of Act 40. See OCA M.B. at 45-47. OCA witness Morgan explained that the Company did not meet the transition period requirements of Act 40, as follows:

Q. DID THE COMPANY COMPLY WITH ACT 40 OF 2016?

A. No. With regard to the portion of Act 40 that requires the 50 percent of the calculated consolidated tax savings be earmarked to support reliability or infrastructure related to the rate-base eligible capital investment, the Company simply states that its rate base claim in this case exceeds the 50% of the consolidated tax savings. This does not show how it is used or benefit[s] ratepayers.

Q. HAS THE COMPANY ADDRESSED THE USE OF 50% FOR GENERAL CORPORATE PURPOSES?

A. Company witness Anzaldo did not specifically address treatment for the 50% use of consolidated tax savings for general corporate purposes.

OCA St. 1 at 23-24. Act 40 was clear that through 2025, the former consolidated tax savings, which are now being paid for by ratepayers, were to be *calculated through 2025* and used to reduce other ratepayer obligations. OCA witness Morgan provided a means by which such requirements could be accomplished during the transition period. See OCA M.B. at 45-46.

Mr. Morgan's recommended application of Act 40, as detailed above, directly complies with the statute as quoted in UGI witness Andalzo's Rebuttal Testimony. OCA St. 1S at 4. Act 40 specifies that the "Revenue Use" differential applies through 2025 (i.e., Subsection B shall no longer apply after December 31, 2025). The OCA submits that the Act requires that some net quantifiable benefit to Pennsylvania utility consumers be provided through 2025 to help offset the impact of the significant rate increases caused through the elimination of the traditional Pennsylvania consolidated tax savings adjustment for ratemaking purposes.

The Act is clear that, in this transition, a benefit must still flow to ratepayers. 1 Pa. C.S § 1921(b) ("When the words of a statute are clear and free from all ambiguity, the letter of it is not be disregarded . . ."). The Company's position would effectively render the transition period

moot, as nothing of significance would change post 2025. The OCA submits that OCA witness Morgan's adjustments regarding the application of tax savings is consistent with Act 40 and should be adopted in this proceeding.

VIII. FAIR RATE OF RETURN

A. Rate of Return Standards

The OCA addressed rate of return standards in its Main Brief. See OCA M.B. at 50-52.

B. Capital Structure

A Partial Stipulation has been reached as to this issue. See OCA M.B. at 8.

C. Cost of Long-Term Debt

As noted in the OCA's Main Brief, the OCA has accepted the Company's embedded long term cost of debt of 4.69%. See OCA M.B. at 52.

D. Cost of Common Equity

The OCA recommends a DCF-derived cost of equity of 8.5%. See OCA M.B. at 53-63. This cost rate is consistent with investor expectations and current market conditions and thus is appropriate in today's financial market. Moreover, as discussed in the OCA's Main Brief, the Company's 11.25% equity cost rate is overstated, is derived from the application of multiple flawed models and flawed analyses and should be rejected. OCA M.B. at 63-69. Finally, the record does not contain sufficient evidence to support UGI's adjustment for management performance. See OCA M.B. at 66-67. The OCA's cost rate of 8.5% should be adopted.

1. The OCA's Recommendation is Reasonable Given Current Market Conditions and Investor Expectations.

As explained in the OCA's Main Brief, Mr. Rothschild derived his recommended equity cost rate by using the same comparison group as Company witness Moul. See OCA M.B. at 53-69. Mr. Rothschild used the constant growth DCF method and determined the growth rate based on the sustainable growth procedure rather than analysts' growth rates. In its Main Brief, the Company argued that the use of analysts' growth rate forecasts is the most accurate

predictor of investor required returns. UGI M.B. at 79. As explained below and in the OCA's Main Brief, the Company's criticisms are without merit and should be rejected.

First, regarding literature that supports analysts' growth rate forecasts as the most accurate predictor, Mr. Rothschild explained that there are studies that refute that position. Specifically, Mr. Rothschild cites a McKinsey analysis that shows that analysts have been persistently over optimistic for decades, as follows:

The five-year growth rates Mr. Moul uses are not the sustainable growth rates required by the constant growth DCF. Furthermore, a study conducted by McKinsey & Company in 2010 found that "analysts have been persistently over optimistic for the past 25 years with estimates ranging from 10 to 12 percent a year, compared with actual earnings growth."

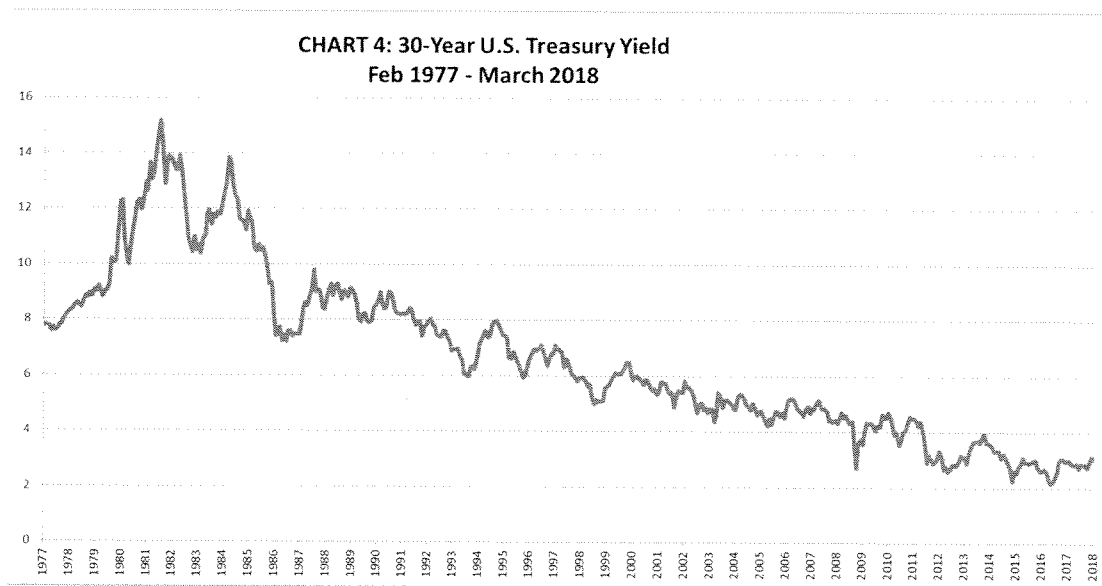
OCA St. 3S at 3. As Mr. Rothschild explained, the evidence does not support the analyst overstated growth rate forecasts.

Second, Mr. Rothschild refuted the Company's criticism of the retention growth method he utilized in his DCF model. UGI M.B. at 96-97. This criticism is centered on the Company's contention that, if the retention growth method is correct, stock prices must "gravitate" toward book value. UGI M.B. at 96. The OCA submits that this reading is flawed.

The constant growth model is $k = D/P + (br + sv)$ where "k" equals the cost of equity and "r" is the future expected return on equity. OCA M.B. at 59; OCA St. 3 at 28-29. The cost of equity (k) is not the same variable as the future expected earned return on equity (r). Moreover, the value of "r" is based on the value expected by investors during the same time frame as the stock price and dividend yield used to calculate D/P in the equation. OCA M.B. at 60-61; OCA St. 3 at 32-33. Thus, even if investors' expectations change in the future, the calculation of "k" is correct *at the time* the computation is made. OCA St. 3 at 33. Thus, the Company's criticism that this methodology requires stock prices to "gravitate" toward book value is flawed.

The Company further argued in its Brief that the OCA’s return on equity is “unprecedented.” UGI MB at 92. To make this argument, the Company points to the 2012 PPL Electric Utilities base rate proceeding, where the Commission authorized a return on equity of 10.4%. UGI MB at 92. The OCA submits, however, that the PPL 2012 10.4% return on equity did not reflect the stable low cost capital period that provides the backdrop to UGI’s current request. Pa. PUC v. PPL Electric Utilities Corp., Docket No. R-2012-2290597 (Order entered December 28, 2012) (PPL 2012). As indicated in the below chart, 2012 represented the beginning of a lower cost of capital era ls:

As of March 31, 2018 the yield on the 30-Year U.S. Treasury bond is at 3.03%. As shown in Chart 4 below, yields on 30-year U.S. treasuries remain low by historical measures:



OCA St. 3 at 15. The Commission in 2012 faced this new reality and awarded a 10.4% return on equity with uncertainty as to whether such a low-cost environment was sustainable. The OCA submits that, six years later, capital markets support a lower return on equity.

The OCA submits a low cost of capital environment has stabilized since 2012, making a lower return far more appropriate. Given the stability of low-cost capital since 2012, a lower

return on equity, as supported by OCA witness Rothschild and I&E witness Spadaccio, is appropriate.

2. OCA Witness Rothschild's CAPM Analysis Provides a Reasonable Check on His DCF Results.

As detailed in the OCA's Main Brief, OCA witness Rothschild conducted a CAPM analysis as a check on his DCF results. See OCA M.B. at 62-63. In its Main Brief, the Company argued that OCA witness Rothschild's CAPM analysis uses incorrect betas that are not available to investors. UGI M.B. at 98. As Mr. Rothschild testified, however, this criticism is unfounded as investors have the proper information available to them to make informed decisions. OCA St. 3S at 4. Mr. Rothschild explained that his "CAPM is 100 percent based on market data that is available to investors: (1) stock prices, (2) bond yields, (3) option prices, (4) implied volatility, (5) Skew of S&P 500. This information is all publicly available on Yahoo Finance, Wall Street Journal, the Chicago Board of Options Exchange, and many other sources." OCA St. 3S at 4. The OCA submits that the Company's criticism on this issue should be rejected.

3. The Company's 11.25% Equity Cost Rate Should Be Rejected.

As discussed in UGI's Main Brief, Company witness Moul arrived at his recommended 11.25% return on equity recommendation through a combination of analyses, including a DCF model with a leverage adjustment, a Risk Premium approach with a credit quality adjustment, and a CAPM method including a size adjustment. UGI M.B. at 77; OCA M.B. at 63; OCA St. 3 at 46. In addition, Mr. Moul increased his recommendation by 20 basis points to recognize "management performance." OCA M.B. at 66-67; OCA St. 3 at 45.

The Commission has traditionally relied on the DCF methodology over other methods such as the Risk Premium (RP) and Capital Asset Pricing Model (CAPM) in determining the rate of return. In PPL's 2012 and 2004 base rate case, the Commission reaffirmed its reliance upon

the DCF method. PPL 2012; Pa. PUC v. PPL Electric Utilities Corp., 237 P.U.R. 4th 419, 2004 Pa. PUC LEXIS 40 (December 2, 2004) (PPL 2004). Mr. Moul’s DCF analysis produces a result of 9.48% when his flawed leverage adjustment is properly removed.² UGI M.B. at 79. To obtain a recommendation of 10.95%, the Company relies heavily on non-DCF analyses. Company M.B. at 77. The OCA submits that the Company’s proposed 11.25% return on equity is not supported by the DCF models in this proceeding.

The flaws in Mr. Moul’s analysis, which substantially deviates from the DCF approach, are addressed in the OCA’s Main Brief at 63-69 and in OCA St. 3 at 45-60 and 3S at 2-8. For the reasons discussed in the OCA’s Main Brief and testimony, his analyses are flawed and should be rejected.

E. Conclusion as to Rate of Return

As discussed above and in the OCA’s Main Brief, the OCA submits that UGI Electric has failed to meet its burden of proof in support of its request for this Commission to allow it the opportunity to earn a return on equity of 11.25%. The OCA recommends that the Commission allow the Company the opportunity to earn an 8.5% return on equity and a 6.75% overall return on its rate base.

IX. RATE STRUCTURE

A. Allocated Class Cost of Service Study

In its Main Brief, UGI Electric argued that the Commission should accept its ACCOSS, which incorporates the majority of the OSBA’s recommendations. UGI M.B. at 136. The Company claimed that using the minimum system approach is appropriate and that it properly

² In PPL 2012, the Commission rejected a leverage adjustment. See OCA M.B. at 65. Here, the Company argues that while the leverage adjustment was rejected in PPL 2012, it did so in the context of adopting a DCF at the higher-end of the ranges proposed in that proceeding. UGI M.B. at 85. The OCA submits that Mr. Moul’s “higher range” DCF analysis without a leverage adjustment is 9.48%, far removed from his recommended 11.25% return on equity.

classified upstream primary and secondary distribution plant as customer-related, although the OCA has demonstrated otherwise. UGI M.B. at 141-143; see OCA M.B. at 71-79. The OSBA made similar claims in addition to providing technical corrections to the Company's ACCOSS. OSBA M.B. at 16-23. Moreover, the Company criticized OCA witness Mierzwa's reference to Professor James Bonbright's Principles of Public Utility Rates and claimed that OCA witness Mierzwa's modifications to the ACCOSS are without merit. UGI M.B. at 141, 144. For the reasons set forth below, the OCA submits that both the Company's claims and OSBA's claims must be rejected, and that the OCA's ACCOSS should be used as a guide in this proceeding.

1. The Company's Minimum System Approach is Flawed and the Company Improperly Classified Primary and Secondary Distribution Plant.

The Company claimed that its ACCOSS adheres to the "generally accepted" methods identified by the National Association of Regulatory Utility Commissioner's (NARUC). UGI M.B. at 138. As fully discussed in the OCA's Main Brief, however, a majority of jurisdictions do *not* use the minimum system approach due to concerns that it does not address customer density and does not account for those portions of each classes' peak load that can be met by the minimum system itself. See OCA M.B. at 71-79. A 2000 NARUC report provides that the *most common* method is the basic customer method. OCA St. 4S at 2. OCA witness Mierzwa explained that the NARUC report states as follows:

There are a number of methods for differentiating between the customer and demand components of embedded distribution plant. The most common method used is the basic customer method, which classifies all poles, wires, and transformers as demand-related and meters, meter-reading, and billing as customer-related. This general approach is used in more than thirty states.

OCA St. 4S at 2 (emphasis in original). OCA witness Mierzwa further noted that "many (if not most) state regulatory commissions endorse a method in which all distribution plant from

substations through line transformers is classified and allocated based solely on demand. OCA St. 4S at 3. Further, this Commission has noted that the minimum system approach is flawed in that the “theoretical minimum size system” “can be represented as a wet thread supported by long tooth picks to serve a Christmas tree light.” Pa. PUC v. Duquesne Light Co., 1985 Pa. PUC LEXIS 68, 231 (1985).

In its Main Brief, the OCA explained in detail that the above-mentioned concerns and flaws in are present in UGI Electric’s minimum system approach. See OCA M.B. at 72-76. The OCA does not repeat that explanation here. The OCA also notes that I&E has similarly stated that it “believes that the Company’s customer cost analysis is overly inclusive,” although I&E has not otherwise made recommendations regarding the ACCOSS. I&E M.B. at 75.

Accordingly, the OCA submits that the minimum system approach is flawed and that the Company improperly classified primary and secondary distribution plant.³ The OCA further submits that the Commission should reject the Company’s ACCOSS.

2. The OSBA’s Technical Corrections to the Company’s ACCOSS and the OSBA’s ACCOSS are Flawed and Must be Rejected.

In its Main Brief, the OSBA details a number of technical corrections to the Company’s ACCOSS and presented its own ACCOSS performed by OSBA witness Robert Knecht reflecting these corrections. OSBA M.B. at 16-23. OCA witness Mierzwa explained that the OSBA’s technical corrections are unreasonable, as follows:

Mr. Knecht identifies approximately a dozen of what he considers to be relatively minor technical corrections that should be made to the Company’s ACCOSS methodology, and contends that these corrections are unlikely to have a material impact on the ACCOSS results. He also identifies half a dozen significant methodological concerns with the Company’s ACCOSS. Finally, Mr. Knecht also

³ The OCA’s arguments regarding the minimum system approach and the allocation of primary and secondary plant also apply to the OSBA’s claims. The OCA submits that the OSBA’s claims are invalid and should be rejected.

identifies three issues with the Company's ACCOSS that require additional evidence.

...

With respect to pole costs, my direct testimony explains in detail why it is unreasonable to classify any portion of pole costs as customer-related. Mr. Knecht has proposed to increase the customer component of pole costs. Therefore, it is unnecessary to repeat those arguments here.

Line transformers are upstream distribution plant, and for the reasons discussed in my direct testimony, upstream distribution plant should be classified as 100 percent demand-related. The cost of line transformers are not, in any meaningful way, directly related to the number of customers served. The size and costs associated with line transformers are a function of the diversity of customer loads that must be served, as well as the expected future coincident loads that may need to be served from these facilities. There is no direct relationship between the number of customers and the size or costs of line transformers, and Mr. Knecht has presented no such evidence. Therefore, line transformers should be classified and allocated as 100 percent demand-related as UGI has proposed.

OCA St. 4R at 2-3.

OCA witness Mierzwa also noted that the OSBA's ACCOSS is flawed for many of the same reasons that the Company's ACCOSS is flawed. In particular, he noted, "Mr. Knecht's proposed revenue distribution is based on his proposed ACCOSS, which includes a customer component of upstream distribution plant. As explained in my Direct Testimony, classification of a portion of upstream distribution plant as customer-related is inappropriate and unreasonable and, therefore, Mr. Knecht's ACCOSS should not be relied upon." OCA St. 4R at 3.

Accordingly, the OCA submits that the OSBA's technical corrections and the OSBA's ACCOSS are flawed in that they improperly reflect the inclusion of a customer component of upstream distribution plant and should be rejected. See supra, section IX.A.1.

3. The OCA's Modifications are Appropriate and Well-Supported and the OCA's ACCOSS Should Be Used as a Guide in This Proceeding.

With regard to OCA witness Mierzwa's reference to Principles of Public Utility Rates, the Company noted that one sentence of a quote from this text was omitted. UGI M.B. at 141. In Surrebuttal Testimony, however, OCA witness Mierzwa presented the entire quote in explaining that it is improper to allocate a portion of an electric utility's upstream distribution facilities on the basis of being related to the number of customers, as UGI Electric has done. OCA witness Mierzwa explained that Professor Bonbright stated as follows:

But the really controversial aspect of customer-cost imputation arises because of the cost analyst's frequent practice of including, not just those costs that can be definitely earmarked as incurred for the benefit of specific customers but also a substantial fraction of the annual maintenance and capital costs of the secondary (low voltage) distribution system – a fraction equal to the estimated annual costs of a hypothetical system of minimum capacity. This minimum system capacity is sometimes determined by the smallest sizes of conductors deemed adequate to maintain voltage and to keep from falling of their own weight. In any case, the annual costs of this phantom, minimum-sized distribution system are treated as customer costs and are deducted from the annual costs of the existing system, only the balance being included among those demand-related costs to be mentioned in the following section. Their inclusion among customer costs is defended on the ground that, since they vary directly with the area of the distribution system (or else with the lengths of the distribution lines, depending on the type of distribution system), they therefore vary indirectly with the number of customers. Alternatively, they are calculated by the "zero-intercept" method whereby regression equations are run relating cost to various sizes of equipment and eventually solving for the cost of a zero-sized system.

What this last-named cost imputation overlooks, of course is the **very weak correlation between the area (or the mileage) of a distribution system and the number of customers served by this system.** For it makes no allowance for the density factor (customers per linear mile or per square mile). Indeed, if the Company's entire service area stays fixed, an increase in number of customers does not necessarily betoken any increase whatever in the costs of a minimum-sized distribution system.

While, for the reason just suggested, the inclusion of the costs of a minimum-sized distribution system among the customer related costs seems to me clearly indefensible, its exclusion from the demand-related costs stands on much firmer ground.

OCA St. 1S at 3-4 (emphasis in original). As OCA witness Mierzwa noted, it is clear from this quote that “Professor Bonbright was referring to any classification of upstream distribution facilities as customer-related” as improper. OCA St. 1S at 3.

Given the flaws inherent in the minimum system approach, OCA witness Mierzwa recommended that 100 percent of the Company’s primary and secondary distribution plant be classified as demand related. OCA St. 4 at 16-17. OCA witness Mierzwa also recommended modifications to certain O&M accounts, which are fully discussed in the OCA’s Main Brief. See OCA M.B. at 77-78. The Company argued, in its Main Brief, that these modifications are “counterintuitive.”⁴ UGI M.B. at 144. As OCA witness Mierzwa explained however, it is not

⁴ In referencing the Company’s testimony, the OSBA indirectly claimed that the OCA’s adjustments do not follow principles of cause causation. OSBA M.B. at 23. OCA witness Mierzwa explained that the OSBA’s claims against his adjustments are invalid, as follows:

In those instances where Mr. Knecht presents positions similar to those raised by the Company with which I disagree, and I have already addressed, I do not revisit those positions.

...

The costs included in Account 923 are costs billed to UGI by its affiliate for corporate services. As discussed in my direct testimony, these costs are allocated to UGI based on a Modified Wisconsin Formula (“MWF”). With respect to such costs, Mr. Knecht contends that such costs can either be allocated based on the corporate method by which they were assigned to the Company, or based on UGI’s underlying cost of providing service. He then concludes that these costs should be allocated to class based on a consistent basis for each of the UGI Utilities, Inc. companies such as the UGI Utilities, Inc. – Gas Division (“UGI Gas”). He contends that in its last rate case, UGI Gas used a slightly different allocation than the Company used in this case, but the results are nearly identical. Therefore, he suggests that the allocation method used by the Company in this proceeding is not unreasonable.

...

I have proposed a method for the allocation of Account 923 which reflects the method under by which these costs were assigned to UGI. Therefore, it is consistent with cost causation and is reasonable.

OCA St. 4S at 14-15.

counterintuitive to allocate line maintenance costs based 50 percent on energy when these assets are built to meet non-coincident peak (“NCP”) demands. OCA St. 4S at 7. In particular, he stated, “Line maintenance is performed throughout the year to ensure the reliable delivery of electricity throughout the year, not to ensure the reliable delivery of electricity only at the time of peak demand. Therefore, a 50 percent demand/50 percent energy classification and allocate of Account 593 and Account 594 maintenance costs is reasonable.” OCA St. 4S at 7.

The OCA submits that, for the reasons set forth above and in the OCA’s Main Brief, OCA witness Mierzwa’s modifications are appropriate, reasonable, and supported by valid evidence. Based on these modification, OCA witness Mierzwa prepared the OCA’s ACCOSS. The OCA’s ACCOSS provides the following results:

Table 1-S. Comparison of Allocated Cost of Service Study Results				
Rate Class	Company		OCA	
	Rate of Return	Index	Rate of Return	Index
Residential	(0.54%)	(0.14)	0.97%	0.26
General Service-1	(0.59)	(0.16)	3.78	1.01
General Service-4	23.23	6.19	13.87	3.70
Large Power	16.20	4.32	5.56	1.48
Lighting	21.02	5.61	17.33	4.62
Total:	3.75%	1.00	3.75%	1.00

OCA St. 4S at 9: OCA St. 4S, Schedule JDM-1S. The OCA submits that the Commission should use the OCA’s ACCOSS as a guide for revenue allocation in this proceeding.

B. Revenue Allocation

UGI Electric proposes that the rate increase be allocated to the Residential and GS-1 classes with a decrease for the GS-4 class and no increase for the Large Power or Lighting classes. OCA St. 4S at 9. In its Main Brief, the Company argued that its revenue allocation

moves classes toward the cost of service and that the OCA's revenue allocation should be rejected, although it also moves classes toward the cost of service. UGI M.B. at 146, 148; see OCA St. 4S at 10. The Company stated that a proposed revenue allocation is reasonable only if it moves distribution rates for each class closer to the full cost of service. UGI M.B. at 145. The Company also incorrectly claimed that it is not necessary to consider gradualism in revenue allocation and that the primary factor is cost of service alone. UGI M.B. at 145-146, 150.

The Company further noted that its revenue allocation reflects the acceptance of a number of modifications proposed by the OSBA. UGI M.B. at 148-149. Nonetheless, in its Main Brief, the OSBA argued that the OSBA's revenue allocation should be adopted in place of the Company's revenue allocation. OSBA M.B. at 25. The OSBA recommends that the increase be allocated to the Residential and GS-1 classes with a decrease for the GS-4 Class, no increase for the Large Power class, and a decrease for the Lighting class. OSBA M.B. at 24.

As explained in the OCA's Main Brief, the Company's revenue allocation is flawed in that it fails to reflect the concept of gradualism and is based on an ACCOSS that contains a number of deficiencies and cost mis-allocations. See OCA M.B. at 79-83. The OSBA's revenue allocation is similarly flawed.⁵ The OCA's revenue allocation, on the other hand, is based on a well-supported ACCOSS and the concept of gradualism. The OCA's revenue allocation also provides reasonable progress toward cost-based rates for each customer class. OCA St. 4 at 22.

⁵ OCA witness Mierzwa explained that the OSBA's revenue allocation is flawed, as follows:

First, Mr. Knecht's proposed revenue distribution is based on his proposed ACCOSS, which includes a customer component of upstream distribution plant. As explained in my Direct Testimony, classification of a portion of upstream distribution plant as customer-related is inappropriate and unreasonable and, therefore, Mr. Knecht's ACCOSS should not be relied upon for revenue distribution purposes. In addition, Mr. Knecht's proposed revenue distribution includes rate decreases for the GS-4 and Lighting classes. I do not believe a revenue decrease for any class is appropriate at a time when UGI's cost of service is increasing.

OCA St. 4R at 3.

As noted in the OCA’s Main Brief, the Residential class’s current revenue contribution is below the cost of service, while other classes’ revenue contributions are above the cost of service. See OCA M.B. at 80. Accordingly, OCA witness Mierzwa proposed an allocation that moves classes toward the cost of service. He explained:

I assigned a less-than-average system increase to [the General Service class] because it was generating a return that exceeded the system average return. For the Large Power customer class, I assigned an increase sufficient to move the return of this class to the system average return. I assigned no increase to the Lighting customer class because the return of this class was significantly in excess of the system return. The Residential customer class was assigned the remainder of the requested increase.

OCA St. 4 at 22. The OCA’s revenue allocation is as follows:

Table 3-S.				
OCA Proposed Revenue Distribution				
(\$000)				
Rate Class	Present Rates	Proposed Rates	Increase	Percent
Residential	\$22,180	\$29,660	\$6,850	30%
General Service-1	1,548	1,879	331	21
General Service-4	5,753	5,753	0	0
Large Power	5,817	6,728	911	16
Lighting	993	993	0	0
Total:	\$36,921	\$45,013	\$8,092	22%

OCA St. 4S at 10, Table 3S.

The OCA’s revenue allocation properly reflects the concept of gradualism. As I&E explained in its Main Brief, “Gradualism is a well-established ratemaking concept that seeks to limit the immediate increases customers receive when rates are increased and instead seeks to implement significant rate changes on a more gradual basis over time.”⁶ I&E M.B. at 76. The Company’s claims that it is not necessary to consider gradualism in revenue allocation and that

⁶ I&E did not otherwise make recommendations as to revenue allocation. I&E M.B. at 76-77.

the primary factor is cost of service alone are wholly without merit. UGI M.B. at 145-146, 150. In particular, the Commission has held that, “while Lloyd establishes cost of service rates as the polestar of ratemaking, it *does not preclude* consideration of other factors.” Pa. PUC v. City of Dubois – Bureau of Water, Docket No. R-2016-2554150 (Order entered May 18, 2017, at 26) (City of Dubois) (emphasis added); see Lloyd v. Pa. PUC, 904 A.2d 1010 (Pa Commw. Ct. 2004) (Lloyd).⁷ Other factors include gradualism, rate shock, and principles of fundamental fairness. Lloyd at 1020-1021. As cost of service studies are more of an art and guide rather than a science, it is appropriate to consider these other factors in assessing the reasonableness of a proposed revenue allocation.⁸

In addition, it is fundamentally inequitable to assign a decrease to any class when rates are increasing. The Commission has held that, “as a matter of general fairness, those customer classes that have not been allotted any rate increase via the Company’s original revenue allocation should not receive rate decreases.” PPL 2012 at 124. Accordingly, at the very least, the Company’s proposal to decrease rates for the GS-4 class and the OSBA’s proposal to decrease rates for both the GS-4 class and the Lighting class must be rejected as inequitable. As OCA witness Mierzwa stated, “I do not believe a revenue decrease for any class is appropriate at a time when UGI’s cost of service is increasing.” OCA St. 4R at 3. OCA witness Mierzwa further noted that the OCA’s revenue allocation is appropriate because “it reflects movement toward the indicated cost of service, gradualism, and no decrease for any class at a time when rates are increasing.” OCA St. 4S at 10; OCA St. 4R at 3.

⁷ Polestar is a literary reference meaning “guide.” The American Heritage Dictionary, Houghton Mifflin Co. (1985).

⁸ See Application of Met-Ed Approval of Restructuring Plan Under Section 2806 of the Public Utility Code, 1998 Pa. PUC LEXIS 160, *159 (1998); Pa. PUC v. Pa. Power & Light, 55 P.U.R. 4th 185, 249 (Pa. PUC 1983); Pa. PUC v. Aqua Pa, Inc., Docket No. R-00072711, Order (July 31, 2008).

Therefore, the OCA submits that the Commission should reject the Company's revenue allocation as well as the OSBA's revenue allocation and adopt the OCA's revenue allocation in order to provide movement toward the cost of service while avoiding unfairness and rate shock. See OCA St. 4S, Schedule JDM-2.

C. Rate Design

1. Summary of UGI Electric's Proposed Rate Design

As discussed fully in the OCA's Main Brief, UGI Electric proposes to increase its monthly Residential customer charge from \$5.50 to \$14.00, which is an increase of 250 percent. See OCA M.B. at 83. The Company's proposed monthly Residential customer charge includes costs that are not appropriate for a customer charge, does not reflect gradualism, and disproportionately affects low-income and low-use customers. See OCA M.B. at 83-93. For the reasons set forth below and in the OCA's Main Brief, the OCA submits that a monthly Residential customer charge of \$8.00 is appropriate and should be accepted by the Commission.

2. Residential Customer Charge

a. The OCA's Proposed Monthly Residential Customer Charge Includes Only Costs Appropriate to be Included in the Calculation of a Customer Charge and Properly Reflects Gradualism.

In its Main Brief, UGI Electric attempted to justify its customer charge by arguing that it based its customer charge on the Company's cost of service study. UGI M.B. at 152-153, 155. The Company also erroneously claimed that its customer charge analysis, which resulted in a customer charge of \$19.01, included only costs historically allowed by the Commission. UGI M.B. at 153. Further, the Company argued that gradualism concerns are not a valid reason to adopt a customer charge less than \$14.00. UGI M.B. at 155.

As the OCA has demonstrated, UGI Electric's cost of service study is significantly flawed and, thus, is not a valid basis for calculating a customer charge. See OCA M.B. at 70-79. Moreover, as discussed fully in the OCA's Main Brief, the Commission has clearly defined what is included in the basic customer costs for purposes of determining the customer charge. See OCA M.B. at 84-87. It is well established that UGI Electric is permitted only to include costs in its customer charge calculation that are costs required to connect a customer and maintain a customer's account. See Pa. PUC v. Metropolitan Edison Co., 60 Pa. PUC 349 (1985); Pa. PUC v. West Penn Power Co., 59 Pa. PUC 552 (1985); Pa. PUC v. West Penn Power Co., 1994 Pa. PUC LEXIS 144, *154 (1994). Indirect customer costs should not be included in the customer charge. Pa. PUC v. National Fuel Gas Dist. Corp., 83 Pa. PUC 262, 371 (1994).

UGI Electric's customer charge analysis, however, includes costs that "do not vary directly with the addition of a customer." OCA St. 4 at 24. Accordingly, OCA witness Mierzwa removed "costs not appropriately included in a customer charge." OCA St. 4 at 23. In particular, OCA witness Mierzwa explained, "The costs I have proposed to remove from the Company's customer charge calculation such as uncollectible accounts expense, universal service program costs, and miscellaneous customer service expenses do not directly increase with the addition of a customer and, therefore, should not be included in a customer charge." OCA St. 4 at 24.

Further, as OCA witness Mierzwa noted, "[c]ustomers have different usage levels and will be affected differently by changes in customer charges and usage charges" such that "the Company's proposed [250] percent increase in the Residential customer charge will not provide gradualism for low-use customers. OCA St. 4S at 11. As explained in Section IX.B herein,

gradualism and avoidance of rate shock are important considerations in rate design. Specifically, the Commission has stated:

“Gradualism” is a principle of rate design that rates will be increased overtime to avoid “rate shock.” *See, Lloyd v. Pa. P.U.C.*, 904 A.2d 1010, 1018 (Pa Cmwlth 2006). Large rate increases have the potential to cause “rate shock” among customers. To mitigate rate shock, gradualism allows the phasing in of rates over a longer period of time and can be considered as a factor in setting rates.

Pa. PUC v. North Heidelberg Sewer Co., 2013 Pa. PUC LEXIS 356 (Pa. PUC 2013).

I&E also argued that Company’s proposed monthly Residential customer charge is “excessive and violates the concept of gradualism.” I&E M.B. at 76. In its Main Brief, I&E emphasized the importance of considering gradualism in establishing a customer charge. I&E M.B. at 76-78. I&E stated that gradualism is particularly important “for the customer charge component of rate design, which is a defined, constant amount on the customer’s bill that the customer cannot control through usage.” I&E M.B. at 77. I&E further stated that “[c]oncepts . . . like rate shock, gradualism, and scale back will need to be artfully applied” because “[t]his base rate proceeding presents some unique challenges in that UGI Electric has not been in for a base rate increase for nearly 22 years.” I&E M.B. at 77. I&E noted that its recommendations “take the concepts of rate shock and gradualism into consideration” and proposed a \$10.00 monthly Residential customer charge. I&E M.B. at 78.

The OCA agrees with I&E regarding the importance of gradualism, however, the OCA submits that further gradualism is appropriate here given the magnitude of the increase. The OCA’s proposal of an \$8.00 customer charge results in a 45 percent increase. Generally, this level of increase would not be reasonable. OCA St. 4 at 25. However, as OCA witness Mierzwa explained, this increase “would be acceptable in this case given the length of time since

the last customer charge increase.” OCA St. 4 at 25. The OCA submits that I&E’s \$10.00 customer charge, which results in an 82 percent increase, is less appropriate. OCA St. 4R at 4.

Accordingly, the OCA submits that its monthly Residential customer charge of \$8.00 includes only costs appropriate to be included in the calculation of a customer charge and appropriately accounts for gradualism. The OCA further submits that the Company’s proposed monthly Residential customer charge of \$14.00 includes costs that are not appropriate for a customer charge, violates the concept of gradualism, and, therefore, must be rejected.

b. PPL’s Customer Charge and the Customer Charges of “Non-PUC-Jurisdictional” Electric Cooperatives are Not Relevant in This Proceeding.

In its Main Brief, the Company argues that its proposed monthly Residential customer charge of \$14.00 is reasonable because it is lower than PPL’s customer charge and lower than the customer charges of “non-PUC-jurisdictional” electric cooperatives. UGI M.B. at 153. The customer charge of PPL and the customer charges of electric cooperatives, however, are entirely irrelevant in this proceeding. PPL’s customer charge is the highest EDC customer charge in Pennsylvania. In addition, electric cooperatives are not regulated by the Commission, which UGI Electric acknowledged when it referred to these entities as “non-PUC-jurisdictional.” Further, the Company’s proposed customer charge equates to an increase of 250 percent. OCA St. 4 at 22. Further, the Company’s proposed increase is ***6.6 times the proposed increase for the average Residential class.*** OCA St. 4 at 23 (emphasis added).

c. UGI Electric’s Proposed Monthly Residential Customer Charge Will Harm Low-Income and Low-Use Customers.

In its Main Brief, UGI Electric argued that OCA witness Colton’s statement that low-income customers are disproportionately low-use customers is incorrect despite record evidence regarding this trend. UGI M.B. at 158. In addition, the Company argued that

low-income customers use more electricity and that its proposed \$14.00 monthly Residential customer charge will “benefit” low-income customers. UGI M.B. at 158.

As explained in the OCA’s Main Brief, these arguments are wholly without merit. See OCA M.B. at 88-93. OCA witness Colton provided data demonstrating that “a disproportionate number of low-income customers have electricity usage lower than the usage levels of residential customers generally.” OCA St. 5 at 17; OCA St. 5S at 2. In fact, the Company’s data also reflects this trend. OCA witness Colton explained:

Mr. Taylor presents “Table 4” in his analysis which, he says “demonstrates that the relationship between income and electricity usage is much more nuanced than Mr. Colton describes.” What Mr. Taylor does not acknowledge is that his Table 4 demonstrates, and supports, the very testimony which he is seeking to rebut. In no income range below \$35,000 does the electricity usage within the range equal, let alone exceed, the residential average. In contrast, in all but three of the income ranges at or above \$35,000, usage does exceed the residential average. In six of the thirteen income ranges above \$35,000, annual usage does equal or exceed 10,000 kWh, more than 25% greater than the residential average ($[10,000 - 7,815] / 7,815 = 0.2796$).

OCA St. 5S at 2-3 (citation omitted) (emphasis in original). Moreover, with regard to claims that low-income customers use more electricity, OCA witness Colton explained, “While low-income households tend to have less efficient energy consumption than do residential customers generally on a per square foot of housing basis . . . they tend to have lower overall electricity consumption.” OCA St. 5 at 16; OCA St. 5S at 4 (emphasis omitted).

In addition, the Company based its argument that low-income customers use more electricity on the usage of UGI Electric’s CAP participants, which is an inappropriate comparison that results in an invalid conclusion, as OCA witness Colton noted. UGI St. 6R at 33, 35; OCA St. 5S at 4. Specifically, OCA witness Colton explained:

CAP customers are a very small percentage of UGI-Electric's overall low-income population and are not representative of the overall low-income population. CAP customers tend to be higher usage customers than are non-CAP customers. Two reasons exist for this. First, UGI Electric's CAP customers tend to be drawn from the Company's payment-troubled low-income population. There is a relationship between higher usage and nonpayment. Second, if low-income customers had lower consumption, they would choose not to participate in CAP because their bills would already be affordable even in the absence of additional assistance.

OCA St. 5S at 4. Accordingly, it is inappropriate to use the average usage of CAP customers as a surrogate for "low-income" customers generally and the Company's challenge to OCA witness Colton's evidence that a disproportionate number of low-income customers are low-use customers is without merit. OCA St. 5S at 4.

Further, OCA witness Colton explained the implications of low-income customers disproportionately being low-use customers as follows: "the customer charge is a higher overall percentage of total bills and, accordingly, a change in the customer charge would be a larger proportionate change in the total bill." OCA St. 5 at 9. Additional harms caused by the \$14.00 monthly Residential customer charge include: (1) increased CAP bills for customers who use the average monthly bill component of CAP, (2) reduced the buying power for LIHEAP customers, and (3) increased bills for low-income customers that do not participate in bill affordability programs. See OCA M.B. at 88-93; OCA St. 5 at 8. The \$14.00 customer charge will in no way "benefit" low-income customers as UGI Electric claims.

Therefore, the OCA submits that the Company's proposed \$14.00 monthly Residential customer charge will harm low-income customers and must be rejected.

3. Non-Residential Customer Charges

As noted in the OCA's Main Brief, the OCA takes no position on this issue.

D. Scale Backs

In its Main Brief, UGI Electric argued that a scale-back should be applied proportionately to classes experiencing a rate increase and classes experiencing a decrease. UGI M.B. at 165. The Company's argument is based on its revenue allocation, which is deficient for a number of reasons as explained above and in the OCA's Main Brief. See supra, XI.B; OCA M.B. at 79-83. Similarly, the OSBA argued that a scale-back should be applied only to the Residential and GS-1 rate classes because only these classes will be subject to the rate increase under the OSBA's revenue allocation. OSBA M.B. at 31. The OSBA's argument is based on its revenue allocation, which, like the Company's revenue allocation, is flawed. See supra, Section IX.B.

As detailed in the OCA's Main Brief, the OCA recommends that the rate increase for each rate class be scaled-back proportionately from the OCA's revenue allocation. See OCA M.B. at 93. The OCA's revenue allocation does not propose decreases for any class at time when rates are increasing. OCA St. 4 at 10, 22; see City of Dubois at 26; see also PPL 2012 at 124. As such, all rate classes would experience a rate increase and the scale-back would be applied proportionally to each class. OCA St. 1 at 22. Therefore, the OCA submits that, if the authorized rate increase is less than the Company's requested increase, a proportionate scale-back of the increase for each rate class is appropriate.

E. Summary and Alternatives

For the reasons set forth herein and in the OCA's Main Brief, the OCA submits that the Commission should reject the Company's ACCOSS, which includes the majority of the OSBA's modifications. The Commission should also reject the Company's revenue allocation as well as the OSBA's revenue allocation and accept both the OCA's ACCOSS recommendations and the OCA's revenue allocation. The OCA's ACCOSS recommendations correct a number of

deficiencies and mis-allocations in the Company's ACCOSS and the OCA's revenue allocation provides reasonable progress toward moving classes to the cost of service, applies the principles of gradualism, and reflects basic fairness. Additionally, the OCA submits that the Commission should reject the Company's proposed \$14.00 monthly Residential customer charge and accept the OCA's proposed \$8.00 customer charge, which includes only costs appropriate for the calculation of a customer charge, reflects the concept of gradualism, and avoids harm to low-use and low-income customers.

X. UNIVERSAL SERVICE

A Partial Stipulation has been reached as to this issue. See OCA M.B. at 10-11.

XI. MISCELLANEOUS ISSUES

A. Quarterly Earnings Reports

As noted in the OCA's Main Brief, the OCA takes no position on this issue.

B. Public Input Hearings

In its Main Brief, UGI Electric suggested that the concerns raised at the April 18, 2018 Public Input Hearings involved only burdens on low-income customers. UGI M.B. at 187. The Company pointed to programs that assist low-income customers and dismissed all concerns raised in customer testimony stating that they have been addressed "as part of this proceeding." UGI M.B. at 187. The Company also erroneously noted that one customer testified that she supports an increase that allows UGI Electric to fix aging infrastructure. UGI M.B. at 186.

The Company's characterization of the Public Input Hearing testimony oversimplifies the issues raised by customers. As detailed in the OCA's Main Brief, while testimony at the Public Input Hearings revealed that low-income customers, such as those on Social Security Disability, are not able to afford UGI Electric's proposed rate increase, it also revealed that customers believe that the Company's rates should decrease as rates in other states are decreasing and that customers do not believe that UGI Electric has demonstrated a need for the rate increase. See OCA M.B. at 96-97; Tr. at 39-40, 45, 62, 67.

Moreover, the Company's statement that issues raised by customers have been resolved as part of this proceeding is wholly inaccurate. UGI M.B. at 187. The Company suggests that its low-income assistance programs remedy the harm caused by the rate increase. UGI M.B. at 187. As OCA witness Colton testified, however, "given income constraints, an increase in a low-income customer's bill represents 'harm' to the customer." OCA St. 5S at 6. The mere existence of low-income assistance programs does not address the impact of the proposed rate

increase on customers. OCA witness Colton further stated that under the Company's theory, "no level of . . . rate increase could be viewed as a 'harm' to non-low income customers since the PUC has not prescribed affordability limits for such customers." OCA St. 5S at 6.

Lastly, the Company mischaracterized one customer's testimony when it claimed that she supported an increase that would allow UGI Electric to fix aging infrastructure. UGI M.B. at 186. This customer testified as follows:

I *object* to the raising of my electrical distribution rate by 11.2 percent. I feel this is unfair.

...

Thirty-nine of the states have lowered their electric rates. I don't see why Pennsylvania can't do the same; however, if this rate increase is to improve the power grid which is aging . . . then I would consider an increase. I would not consider an increase just to line the pockets of shareholders for getting 25 cents per quarter interest or dividends on each share which runs about \$45 per share. I think that is significant.

...

I have seen UGI has stated that this is to improve service; and I haven't seen service trucks around improving lines or transformers or anything.

Tr. at 39-40 (emphasis added). This customer testified that she "objected" to the rate increase and indicated her concern that the increase would not be used to fix the Company's aging infrastructure, but would be used to "line the pockets of shareholders." Tr. at 40.

The OCA submits that, in order to address the concerns raised by customers at the Public Input Hearings and ensure that the rates resulting from this proceeding are just and reasonable, the Commission must adopt the OCA's adjustments.

XII. CONCLUSION

For the reasons set forth in this Reply Brief and in the OCA's Main Brief, the OCA respectfully submits that the Commission should adopt the OCA's adjustments and modifications to UGI Electric's rate increase request. The Company's as-proposed rate increase will not result in just and reasonable rates and will not reflect sound ratemaking policy or Pennsylvania law. A fair revenue allocation, monthly Residential customer charge, and return on equity must be adopted in this proceeding. Moreover, the Commission must order that the Company timely return 2018 tax savings resulting from the TCJA to customers.

Respectfully Submitted,



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Dated: July 18, 2018

Appendix A

TABLE I
 UGI Utilities, Inc. - Electric Division
 INCOME SUMMARY
 Docket No. R-2017-2640058

	Pro Forma Present Rates	Company Adjustments	Pro Forma Present Rates	OCA Adjustments	OCA Present Rates	OCA Revenue Increase	Total Allowable Revenues
	\$	\$	\$	\$	\$	\$	\$
Operating Revenue	87,179	1,913	89,092	-	89,092	(313)	88,779
Expenses:							
O & M Expense	68,090	3,938	72,028	(325)	71,703	(3)	71,700
Depreciation	5,028	841	5,869	(894)	4,975	0	4,975
Taxes, Other	7,426	(912)	6,514	(352)	6,162	(18)	6,144
Income Taxes:							
State	0	0	0	0	0	0	0
Federal	400	(605)	(205)	685	480	(84)	396
Total Expenses	80,944	3,262	84,206	(886)	83,320	(106)	83,214
Net Inc. Available for Return	6,235	(1,349)	4,886	886	5,772	(207)	5,565
Rate Base	93,085	-	119,272	-	82,452		82,452
Rate of Return	6.70%		4.10%				6.75%

TABLE I(A)
 UGI Utilities, Inc. - Electric Division
 RATE OF RETURN
 Docket No. R-2017-2640058

	Capital Structure	Cost	After-Tax Weighted Cost	Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate
Total Cost of Debt					
Long-term Debt	46.00%	4.69%	2.157400000%		2.16%
Short-term Debt	0.00%	0.00%	0.000000000%		
Preferred Stock	0.00%	0.00%	0.000000000%	0.661254	0.00%
Common Equity	54.00%	8.50%	4.590000000%	0.661254	6.94%
	<u>100.00%</u>		<u>6.747400000%</u>		<u>9.10%</u>

Pre-Tax Interest Coverage 4.22

After-Tax Interest Coverage 3.13

TABLE I(B)
UGI Utilities, Inc. - Electric Division
REVENUE FACTOR
Docket No. R-2017-2640058

100%	<u>1.00000000</u>
Less:	
Uncollectible Accounts Factor	0.01107000
Gross Receipts Tax	<u>0.05900000</u>
	0.92993000
State Income Tax Rate	<u>0.09990000</u>
Effective State Income Tax Rate	<u>0.09290001</u>
Factor After Local and State Taxes	0.83702999
Federal Income Tax Rate	<u>0.21000000</u>
Effective Federal Income Tax Rate	<u>0.17577630</u>
Revenue Factor (100% - Effective Tax Rates)	<u><u>0.66125369</u></u>

TABLE II
 UGI Utilities, Inc. - Electric Division
 SUMMARY OF ADJUSTMENTS
 Docket No. R-2017-2640058

<u>Adjustments</u>	Rate Base	Revenues	Expenses	Depreciation	Taxes-Other	Federal & State Income Taxes
RATE BASE:	\$	\$	\$	\$	\$	\$
Reflect Average Balance for Plant and Related Items	(13,452)					
Regulatory Liability	(10,876)					
Accumulated Depreciation on Average Plant	343					
Energy Center	(12,836)					
CWC:						
Int. & Div. (Table IV)	72					
Taxes (Table V)	(25)					
O & M (Table VI)	(38)					
EXPENSES:						
Remove Environmental Remediation Expense			(139)			40
Adjustment to Eliminate Storm Damage Expense			(186)			54
Remove Depreciation on Energy Center				(551)		159
Annualize Depreciation Expense				(343)		99
Adjust PURTA Tax per Settlement					(352)	102
TAXES:						
Interest Synchronization						231
TOTALS	<u>(36,811)</u>	<u>0</u>	<u>(325)</u>	<u>(894)</u>	<u>(352)</u>	<u>685</u>

TABLE III
 UGI Utilities, Inc. - Electric Division
 INTEREST SYNCHRONIZATION
 Docket No. R-2017-2640058

	Amount \$
Company Rate Base Claim	119,272
OCA Rate Base Adjustments	<u>(36,820)</u>
OCA Rate Base	82,452
Weighted Cost of Debt	<u>2.15700000%</u>
OCA Interest Expense	1,778
Company Claim	<u>2,576</u>
Total OCA Adjustment	798
Company Adjustment	<u>0</u>
Net OCA Interest Adjustment	798
State Income Tax Rate	<u>9.99%</u>
State Income Tax Adjustment	<u>80</u>
Net OCA Interest Adjustment	798
State Income Tax Adjustment	<u>80</u>
Net OCA Adjustment for F.I.T.	718
Federal Income Tax Rate	<u>21.00%</u>
Federal Income Tax Adjustment	<u><u>151</u></u>

TABLE IV
 UGI Utilities, Inc. - Electric Division
 CASH WORKING CAPITAL - Interest and Dividends
 Docket No. R-2017-2640058

Accrued Interest	Long-Term Debt	Short-Term Debt	Preferred Stock Dividends
Company Rate Base Claim	\$ 119,272	\$0	Company Rate Base Claim
OCA Rate Base Adjustments	\$ (36,820)	\$0	OCA Rate Base Adjustments
OCA Rate Base	\$82,452	\$0	OCA Rate Base
Weighted Cost of Debt	2.15700000%	0.00%	Weighted Cost Pref. Stock
OCA Annual Interest Exp.	<u>\$1,778</u>	<u>\$0</u>	OCA Preferred Dividends
Average Revenue Lag Days	55.9	55.9	Average Revenue Lag Days
Average Expense Lag Days	91.3	0.0	Average Expense Lag Days
Net Lag Days	<u>-35.3</u>	<u>55.9</u>	Net Lag Days
Working Capital Adjustment			
OCA Daily Interest Exp.	\$5	\$0	OCA Daily Dividends
Net Lag Days	<u>-35.3</u>	<u>55.9</u>	Net Lag Days
OCA Working Capital Company Claim	<u>(\$177)</u> <u>(\$249)</u>	<u>\$0</u> <u>\$0</u>	Company Claim
OCA Adjustment	<u>\$72</u>	<u>\$0</u>	
Total Interest & Dividend Adj.	<u>\$72</u>		<u>\$0</u> <u>\$0</u> <u>\$0</u> <u>\$5.9</u>

TABLE V
 UGI Utilities, Inc. - Electric Division
 CASH WORKING CAPITAL - TAXES
 Docket No. R-2017-2640058

Description	Company Proforma Tax Expense Present Rates	OCA Adjustments	OCA Pro forma Tax Expense Present Rates	OCA Allowance	OCA Adjusted Taxes at Present Rates	Daily Expense	Net Lead/Lag Days	Accrued Tax Adjustment
	PA Property Tax	\$164	\$0	\$164	\$0	\$164	\$0.45	-34.57
PURTA	\$449	(352)	\$97	\$0	\$97	\$0.27	25.93	\$7
State Income Tax	\$688	\$0	\$688	\$0	\$688	\$1.88	26.43	\$50
Federal Income Tax	\$1,691	\$0	\$1,691	\$0	\$1,691	\$4.63	21.18	\$98
	<u>\$2,992</u>	<u>(\$352)</u>	<u>\$2,640</u>	<u>\$0</u>	<u>\$2,640</u>			
						OCA Allowance		139
						Company Claim		164
						OCA Adjustment		<u>(25)</u>

TABLE VI
 UGI Utilities, Inc. - Electric Division
 CASH WORKING CAPITAL -- O & M EXPENSE
 Docket No. R-2017-2640058

Description	Company Pro forma F. T. Y. Expense	OCA	OCA Pro forma Expenses	Lag Days	Lag Dollars
Payroll	\$5,375	\$0	\$5,375	12.00	\$64,500
Purchased Power	\$49,093	\$0	\$49,093	33.33	\$1,636,270
Other Expenses	\$16,579	\$(325)	\$16,254	15.06	\$244,784
	<u>\$71,047</u>	<u>(\$325)</u>	<u>\$70,722</u>	<u>27.50</u>	<u>\$1,945,554</u>
OCA Average Revenue Lag	55.9				
Less: OCA Avg. Expense Lag	27.5				
Net Difference	28.4	Days			
OCA Pro forma O & M Expense per Day	<u>\$194</u>				
OCA CWC for O & M	\$5,515				
Less: Company Claim	\$5,553				
OCA Adjustment	<u>(\$38)</u>				