

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

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July 23, 2018

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

Re: Joint Application of UGI Utilities Inc., UGI Penn Natural Gas, Inc., and UGI Central Penn Gas, Inc., for Approval of (1) the Merger of UGI Penn Natural Gas, Inc. and UGI Central Penn Gas Inc. Into UGI Utilities, Inc., (2) the initiation by UGI Utilities, Inc. of natural gas service in all Territory where UGI Penn Natural Gas, Inc. and UGI Central Penn Gas provide natural gas service, (3) the abandonment by UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc. of all natural gas service in this Commonwealth; and where Necessary, Associated Affiliated Interest Agreements.
Docket Nos. A-2018-3000381, A-2018-3000382, A-2018-3000383

Dear Secretary Chiavetta:

Attached for electronic filing please find the Office of Consumer Advocate's Statement in Support of the Joint Petition for Approval of Settlement in the above-referenced proceeding.

Copies have been served on the parties as indicated on the enclosed Certificate of Service.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'H. Breitman', written over a horizontal line.

Harrison W Breitman
Assistant Consumer Advocate
PA Attorney I.D. # 320580
E-Mail: HBreitman@paoca.org

Enclosures

cc: The Honorable Joel H. Cheskis, ALJ
The Honorable Benjamin J. Myers, ALJ
Certificate of Service

CERTIFICATE OF SERVICE

Joint Application of UGI Utilities Inc., UGI Penn :
Natural Gas, Inc., and UGI Central Penn Gas, Inc., :
for Approval of (1) the Merger of UGI Penn : Docket Nos. A-2018-3000381
Natural Gas, Inc. and UGI Central Penn Gas Inc. : A-2018-3000382
Into UGI Utilities, Inc., (2) the initiation by UGI : A-2018-3000383
Utilities, Inc. of natural gas service in all :
Territory where UGI Penn Natural Gas, Inc. and :
UGI Central Penn Gas provide natural gas :
service, (3) the abandonment by UGI Penn :
Natural Gas, Inc. and UGI Central Penn Gas, Inc. :
of all natural gas service in this Commonwealth; :
and where Necessary, Associated Affiliated :
Interest Agreements :

I hereby certify that I have this day served a true copy of the following document, the Office of Consumer Advocate's Statement in Support of the Joint Petition for Approval of Settlement, 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 23rd day of July 2018.

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Joint Application of UGI Utilities Inc., UGI Penn	:	
Natural Gas, Inc., and UGI Central Penn Gas, Inc.,	:	
for Approval of (1) the Merger of UGI Penn	:	Docket Nos. A-2018-3000381
Natural Gas, Inc. and UGI Central Penn Gas Inc.	:	A-2018-3000382
Into UGI Utilities, Inc., (2) the initiation by UGI	:	A-2018-3000383
Utilities, Inc. of natural gas service in all	:	
Territory where UGI Penn Natural Gas, Inc. and	:	
UGI Central Penn Gas provide natural gas	:	
service, (3) the abandonment by UGI Penn	:	
Natural Gas, Inc. and UGI Central Penn Gas, Inc.	:	
of all natural gas service in this Commonwealth;	:	
and where Necessary, Associated Affiliated	:	
Interest Agreements	:	

STATEMENT OF THE OFFICE OF CONSUMER ADVOCATE
IN SUPPORT OF THE
JOINT PETITION FOR APPROVAL OF SETTLEMENT

I. INTRODUCTION

On March 8, 2018, UGI Utilities, Inc. – Gas Division, UGI Central Penn Gas, Inc. and UGI Penn Natural Gas, Inc. (collectively the “Joint Applicants” or “the Companies”) filed the above-captioned Merger Application. The Companies, by filing the Merger Application, sought Commission authorization for 1) an Agreement and Plan of Merger, 2) the merger of UGI Penn Natural Gas, Inc. (“PNG”) and UGI Central Penn Gas, Inc. (“CPG”) with and into UGI Utilities, Inc., 3) the initiation by UGI Utilities, Inc. of natural gas service in all territories in this Commonwealth where PNG and CPG do or may provide natural gas service, 4) the abandonment by PNG of all natural gas service in this Commonwealth, 5) the abandonment by CPG of all natural gas service in this Commonwealth, 6) adoption by UGI Utilities, Inc. of PNG’s and CPG’s existing tariffs and their application within new service and rate districts of UGI Utilities

corresponding to their existing service territories as UGI North and UGI Central, respectively, 7) the adoption by UGI Utilities, Inc. of its Existing Tariff to be applied to a new UGI South Service and Rate District, and 8) to the extent necessary, associated affiliated interest agreements. The Applicants further sought all other approvals and certificates appropriate, customary, or necessary under the Public Utility Code to carry out the transactions contemplated in the Merger Application in a lawful manner and requested further that the Commission grant these authorizations by no later than August 23, 2018.

On April 9, 2018, the Office of Consumer Advocate (“OCA”) filed a Protest and Public Statement in response to the Joint Application. The following other parties filed either a Formal Protest or a Petition to Intervene in this proceeding: the Office of Small Business Advocate (“OSBA”); the UGI Industrial Intervenors (“UGIII”);¹ the NGS Parties;² Direct Energy;³ and the Commission for Economic Opportunity (“CEO”). On April 11, 2018, the Bureau of Investigation and Enforcement (“I&E”) filed a Notice of Appearance.

The proceeding was assigned to Administrative Law Judges Joel H. Cheskis and Benjamin L. Meyers (“the ALJs”). A prehearing conference was held on May 14, 2018 and a litigation schedule was adopted in a subsequent Order entered on May 15, 2018.

The OCA submitted the Direct Testimony of Jerome D. Mierzwa on July 10, 2018.

Pursuant to the Commission’s policy of encouraging settlements that are in the public interest, the OCA, I&E, OSBA, Direct Energy, UGIII, the NGS Parties, and the Companies held numerous settlement conferences. These discussions resulted in the proposed Settlement. As

¹ UGIII is comprised of Carpenter Technology Corporation, East Penn Manufacturing Co., Glen Gery Corporation, Hydro Extrusion USA, LLC, United Corrstack, LLC, and UPMC Pinnacle Health.

² The NGS Parties are comprised of Shipley Choice, LLC, Dominion Retail, Inc., Interstate Gas Supply, Inc. d/b/a IGS Energy and Rhoads Energy.

³ Direct Energy collectively refers to Direct Energy Business, LLC, Direct Energy Services, LLC, and Direct Energy Business Marketing, LLC.

discussed below, the OCA submits that the proposed Settlement is in the public interest, in the best interest of UGI's customers, and should be adopted without modification.

In this Statement in Support, the OCA will not address each and every provision of the Settlement, but will focus on those provisions that are important to the OCA. The OCA expects that the other Parties will likewise focus on those provisions of the Settlement that address their particular concerns in this matter.

II. STANDARD FOR APPROVAL OF SETTLEMENT

The Commission encourages parties in contested on-the-record proceedings to negotiate in good faith and attempt to reach an amicable resolution of their issues. See, 52 Pa. Code § 5.231. Settlements save time, effort, and expense associated with litigation and potential appeals. Settlements benefit the individual parties, the Commission, and all ratepayers of a utility who otherwise may have to bear the financial burden that litigation entails. A Settlement, by definition, reflects a compromise of the parties' positions. When active parties in a proceeding reach a settlement, the principal issue for Commission consideration is whether the settlement suits the public interest. Pa. Public Utility Commission v. CS Water and Sewer Associates, 74 Pa. PUC 767, 711 (1991); Pa. Public Utility Commission v. Philadelphia Electric Company, 60 Pa. PUC 1, 21 (1985).

III. THE SETTLEMENT IS IN THE PUBLIC INTEREST

A. GENERAL

The terms and conditions of the Settlement satisfactorily address the issues raised in the OCA's Protest and Direct Testimony. The OCA recognizes that this Settlement contains modifications from the original recommendations proposed. It is the OCA's belief that the agreed upon Settlement achieves a suitable compromise for UGI and the ratepayers.

For these reasons, and those that are discussed in greater detail below, the OCA submits that the Settlement is in the public interest and the best interest of the Companies' ratepayers, and should be approved by the Commission without modification.

B. TRANSPARENCY OF DATA/RATEMAKING (Settlement at §§ 3-11)

The Settlement ensures that UGI will maintain pre-merger accounting records for the old UGI Gas Division, PNG, and CPG, at least until uniform rates are established for the new UGI Gas Division and otherwise in accordance with applicable record retention legal requirements. Settlement at ¶ 3.

The Settlement provides that, upon the close of the merger, UGI is permitted to implement consolidated cost accounting for the consolidated UGI Gas Division, for book and regulatory purposes, without attribution to rate district, provided that, until such time as UGI has permission to implement uniform rates throughout the UGI Gas service territory, UGI Gas will maintain: (1) customer revenue data and usage records by rate district; and (2) separate (by rate district) cost records for costs recovered outside of base rates—*e.g.*, purchased gas costs (“PGC”), DSIC, Universal Service Program (“USP”) Rider, State Tax Adjustment Surcharges (“STAS”), etc.). Settlement at ¶ 4. Moreover, the Companies agree that, in addition to the consolidation of books, UGI will maintain separate books of account by rate division until the next base rate case, or, if later, until UGI places into service the new financial system that is currently under development. Settlement at ¶ 5.

Initially, the Companies proposed to separately maintain and file some items, including purchased gas cost portfolios and rates, energy efficiency and conservation programs, universal service programs and budgets, long-term infrastructure improvement plans (“LTIPs”) and Distribution System Improvement Charges (“DSICs”). See, OCA St. 1 at 3. However, the

Companies also proposed to submit the financial reports required under Chapter 71 of the Commission's regulations, annual reports required under 52 Pa. Code § 59.48, and other required reports on a consolidated basis. Id. The OCA submitted in direct testimony that since each company serves different service territories, and since the costs associated with providing service in each territory are different, the Companies should be required to continue to maintain separate cost of service and accounting records until the Companies' next rate case. OCA St. 1 at 4. The OCA recommended that, in order to fully evaluate the impact of the merger on rates, the Companies can present a proposal to move towards consolidation of rates and should present the individual district revenue requirements and separate cost of service studies. OCA St. 1 at 4.

Under the proposed Settlement, UGI will maintain and file the reports identified in paragraph 40 of the Merger Application on a rate district by rate district basis until the earlier of such time when UGI has achieved uniform rates among the rate districts or such time as the Commission approves otherwise. Settlement at ¶ 6. UGI further agreed that, in its next rate case post-merger, UGI Gas Division will file separate revenue requirement models and cost allocation studies on a consistent basis for each rate district, and will be permitted to file a consolidated revenue requirement model and class cost of service study, subject to specific requirements. Settlement at ¶ 7. Under the proposed Settlement, UGI agrees to submit detailed sales and revenue schedules for each rate class within each rate district that show the following: (1) actual historic year sales and revenues; (2) adjusted historic year sales and revenues along with specific historic year ratemaking adjustments individually identified as to amount and purpose (adjusted historic year); (3) future year budgeted sales and revenues along with specific ratemaking adjustments identified as to amount and purpose (adjusted future year); and, (4) fully projected future year ("FPFTY") budgeted sales and revenues along with specific FPFTY ratemaking

adjustments individually identified as to amount and purpose (adjusted FPPTY). Settlement at ¶ 7(a). The proposed Settlement also allows UGI to include a proposal to create uniform rates for the three UGI Gas rate districts, inclusive of base rates, PGC rates, and other surcharges, which shall not be opposed on the basis that such proposal should be made in another type of proceeding and that all parties reserve their rate to take positions on relevant issues in future proceedings. Settlement at ¶ 7.

The OCA submits that the proposed Settlement will allow interested parties to fully evaluate the impact of the merger on rates. Adequate cost of service information and a full identification of any efficiencies and benefits to customers is important to review in the case of any future proposal to move rates towards consolidation. The OCA submits that the proposed provision of data, when accompanied by other important conditions contained in the Settlement, yields a result that is just and reasonable in this application.

C. LOW INCOME PROGRAMS (Settlement at ¶¶ 12-15)

The Settlement provides that the Companies will maintain the existing Universal Service programs in the pre-merger rate districts once the merger is complete, at least through the term of the currently effective triennial plan and that it will continue to recognize the geographic diversity of the UGI Gas Division's service territories in future Universal Service Triennial plans. Settlement at ¶¶ 12-13. Moreover, UGI will maintain and track records of low-income customers on a county-by-county basis and will establish a baseline of county level participation for the fiscal year ending September 30, 2018. Settlement at ¶ 14.


In his Direct Testimony, OCA witness Mierzwa recommended that the Companies continue to track spending and need by district, and maintain current spending levels in each rate district after the merger is complete. OCA St. 1 at 5. Under the proposed Settlement provisions,

the Company agrees to continue tracking and maintain current spending levels in each rate district. As such, the OCA supports these provisions as they are in the public interest and do not alter current spending levels on low-income programs.

IV. CONCLUSION

The Office of Consumer Advocate, one of the signatory parties to the Joint Petition for Approval of Settlement, submits that the proposed terms and conditions of the Settlement are in the public interest. The OCA respectfully requests that the Pennsylvania Public Utility Commission approve the Settlement without modification for the reasons discussed above.

Respectfully Submitted,



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