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August 14, 2018

VIA ELECTRONIC FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: Joint Application of UGI Utilities, Inc., et al.
Docket Nos. A-2018-3000381, A-2018-3000382 and A-2018-3000383

Dear Secretary Chiavetta:

Enclosed for filing on behalf of the parties in the above-captioned proceeding is the Joint Motion for Admission of Written Testimony by Stipulation ("Joint Motion"). In the Joint Motion, the parties have: (1) stipulated to the identification and admission of all written testimony and associated exhibits in this proceeding; (2) requested the Administrative Law Judges admit the attached written testimony and exhibits into the record; and (3) requested the hearings scheduled for August 21-22, 2018, be cancelled. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,

Garrett P. Lent

GPL/sme
Enclosures

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

CERTIFICATE OF SERVICE
A-2018-3000381
A-2018-3000382
A-2018-3000383

I hereby certify that true and correct copies of the foregoing have been served upon the following persons, in the manner indicated, in accordance with the requirements of § 1.54 (relating to service by a participant).

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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 All of the Necessary Authority, Approvals, and Certificates of Public Convenience for (1) an Agreement and Plan of Merger; (2) the Merger of UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc. into UGI Utilities, Inc.; (3) the initiation by UGI Utilities, Inc. of natural gas service in all territory in this Commonwealth where UGI Penn Natural Gas, Inc. and UGI Central Penn Gas do or may provide natural gas service; (4) the abandonment by UGI Penn Natural Gas, Inc. of all natural gas service in this Commonwealth; (5) the abandonment by UGI Central Penn Gas, Inc. of all natural gas service in this Commonwealth; (6) the adoption by UGI Utilities, Inc. of UGI Penn Natural Gas, Inc.'s and UGI Central Penn Gas, Inc.'s Existing Tariffs and their Application within New Service and Rate Districts of UGI Utilities, Inc. Corresponding to their Existing Service Territories as UGI North and UGI Central, Respectively; (7) the adoption by UGI Utilities of its Existing Tariff to be applied to a new UGI South Service and Rate District; (8) Where Necessary, Associated Affiliated Interest Agreements; and (9) any Other Approvals Necessary to Complete the Contemplated Transaction	:	Docket No. A-2018-3000381 Docket No. A-2018-3000382 Docket No. A-2018-3000383

JOINT MOTION FOR ADMISSION OF WRITTEN TESTIMONY BY STIPULATION

TO ADMINISTRATIVE LAW JUDGES JOEL H. CHESKIS AND BENJAMIN L. MEYERS:

I. <u>INTRODUCTION</u>

UGI Utilities, Inc. – Gas Division, UGI Central Penn Gas, Inc., and UGI Penn Natural Gas, Inc. (collectively the "Joint Applicants"), the Bureau of Investigation and Enforcement ("I&E"), the Office of Consumer Advocate ("OCA"), the Office of Small Business Advocate

("OSBA"), the NGS Parties,[1] the Commission for Economic Opportunity ("CEO"), Direct Energy,[2] and the UGI Industrial Intervenors ("UGIII"), all Parties to the above-captioned proceeding (hereinafter, collectively the "Joint Movants" or the "Parties"), hereby file this Joint Motion for Admission of Written Testimony by Stipulation ("Motion") and respectfully request that Administrative Law Judges Joel H. Cheskis and Benjamin L. Meyers (the "ALJs") admit the pre-served written direct testimony filed by certain of the Parties.

In support of the Motion, the Joint Movants state the following:

II. <u>BACKGROUND</u>

1. This proceeding was initiated on March 8, 2018, when the Joint Applicants filed the above-captioned Merger Application. The Merger Application sought the 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 territory 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 Joint Applicants further sought all other approvals and certificates appropriate, customary, or necessary under the

[1] The NGS Parties are comprised of Shipley Choice, LLC, Dominion Retail, Inc., Interstate Gas Supply, Inc. d/b/a IGS Energy and Rhoads Energy.
[2] Direct Energy collectively refers to Direct Energy Business, LLC, Direct Energy Services, LLC, and Direct Energy Business Marketing, LLC.

Code to carry out the transactions contemplated in the Merger Application in a lawful manner. The Joint Applicants requested further that the Commission grant these authorizations by no later than August 23, 2018, so that the merger may close and become effective October 1, 2018, the beginning of UGI Utilities, Inc.'s fiscal year.

2. Formal Protests were filed by OSBA and OCA. Petitions to Intervene were filed by and granted for UGIII, the NGS Parties, CEO, and Direct Energy. I&E filed a Notice of Appearance.

3. A prehearing conference was held as scheduled on May 14, 2018. A litigation schedule and modified discovery rules were agreed to by the Parties and adopted in the Scheduling Order issued by the ALJs on May 15, 2018.

4. Pursuant to the litigation schedule adopted in the Scheduling Order, the Joint Applicants submitted the Direct Testimony of Paul J. Szykman on June 1, 2018.

5. Throughout the proceeding, the Joint Applicants responded to discovery requests submitted by other parties, and the Parties collectively engaged in numerous settlement conferences.

6. On July 10, 2018, OCA, OSBA, the NGS Parties, and CEO filed Direct Testimony. I&E, Direct Energy and UGIII indicated that they would not be submitting Direct Testimony in this proceeding.

7. Also on July 10, 2018, the Parties informed the ALJs that they had reached a unanimous agreement in principle resolving all issues in the above-captioned Merger Application.

8. On July 20, a Joint Petition for Approval of Settlement of All Issues ("Settlement") was submitted. Therein, the Parties, except UGIII, agreed to the settlement of all

issues in this proceeding. UGIII did not join the Settlement, but separately indicated its non-opposition.

9. I&E, OCA, OSBA, the NGS Parties, Direct Energy and CEO each filed Statements in Support of the Settlement.

III. MOTION FOR ADMISSION OF TESTIMONY BY STIPULATION

10. The Parties hereby stipulate to the identification and admissibility of the following pre-served written direct testimony and associated exhibits by the Joint Applicants:

(a) UGI Statement No. 1 – Direct Testimony of Paul J. Szykman;

(b) UGI Exhibit PJS-1 – Resume of Paul J. Szykman;

(c) UGI Exhibit PJS-2 – Merger Application and Appendices; and

(d) Verification of Paul J. Szykman.

11. The aforementioned statement and exhibits offered by the Joint Applicants are attached hereto as **Appendix A**.

12. The parties hereby stipulate to the identification and admissibility of the following pre-served written direct testimony and associated exhibits by the OCA:

(a) OCA Statement No. 1 – Direct Testimony of Jerome D. Mierzwa; and

(b) Verification of Jerome D. Mierzwa.

13. The aforementioned statement offered by the OCA is attached hereto as **Appendix B**.

14. The parties hereby stipulate to the identification and admissibility of the following pre-served written direct testimony and associated exhibits by the OSBA:

(a) OSBA Statement No. 1 – Direct Testimony of Robert D. Knecht;

(b) Exhibit IEc-1 – Resume and Expert Testimony List for Robert D. Knecht;

(c) Exhibit IEc-2 – RDK Workpapers for Proof of Revenue and Unit Cost Analysis;

(d) Exhibit IEc-3 – Referenced Interrogatory Responses; and

(e) Verification of Robert D. Knecht.

15. The aforementioned statement and exhibits offered by the OSBA are attached hereto as **Appendix C**.

16. The parties hereby stipulate to the identification and admissibility of the following pre-served written direct testimony by the NGS Parties:

(a) NGS Parties' Statement No. 1 – Direct Testimony of James L. Crist; and

(b) Verification of James L. Crist.

17. The aforementioned statement offered by the NGS Parties is attached hereto as **Appendix D**.

18. The parties hereby stipulate to the identification and admissibility of the following pre-served written direct testimony by the CEO:

(a) CEO Statement No. 1 – Direct Testimony of Eugene M. Brady; and

(b) Verification of Eugene M. Brady.

19. The aforementioned statement offered by CEO is attached hereto as **Appendix E**.

20. Having stipulated to the identification and admissibility of the above-described pieces of testimony and associated exhibits, the Parties respectfully request that the ALJs admit the testimony and exhibits attached hereto in **Appendices A through E** into the record of this proceeding.

21. In addition, as the Parties have requested that the attached testimony and exhibits be admitted into the record by stipulation and motion, the Parties believe that the hearings

scheduled from August 21-22, 2018, in this proceeding are no longer necessary. Therefore, the Parties also request that the ALJs cancel the hearings scheduled from August 21-22.

V. CONCLUSION

WHEREFORE, the Parties respectfully request that the Honorable Administrative Law Judges Joel H. Cheskis and Benjamin L. Meyers: (1) respectively mark and admit the attached written direct testimony of the Joint Applicants, the Office of Consumer Advocate, the Office of Small Business Advocate, the NGS Parties, and the Commission on Economic Opportunity into the record; and (2) cancel the hearings scheduled August 21-22, 2018 in this proceeding.

Respectfully submitted,

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Appendix A

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Docket Nos. A-2018-3000381,
A-2018-3000382, A-2018-3000383

UGI Utilities, Inc.
UGI Central Penn Gas, Inc.
UGI Penn Natural Gas, Inc.

UGI Statement No. 1

Direct Testimony of Paul J. Szykman

Topics Addressed:

Overview of Companies' Merger Request
Management of Company Pre- and Post-Merger
Results of Integration to Date
Merger Benefits
Impact on Customers, Employees, and Competitive Markets

Dated: June 1, 2018

I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Paul J. Szykman. My business address is 2525 North 12th Street, Suite 360, Reading, PA 19612-2677.

Q. By whom and in what capacity are you employed?

A. I am employed by UGI Utilities, Inc. ("UGI") as Chief Regulatory Officer.

Q. What are your duties as Chief Regulatory Officer?

A. As Chief Regulatory Officer, I am responsible for all rate, governmental affairs and regulatory compliance activities for UGI Utilities, Inc. – Gas Division ("UGI Gas"), UGI Penn Natural Gas, Inc. ("UGI PNG"), UGI Central Penn Gas, Inc. ("UGI CPG") and UGI Utilities, Inc. – Electric Division ("UGI Electric") Regarding rates, I oversee the areas of sales and revenue forecasting, tariff administration and compliance, Choice administration and compliance, rate administration, Section 1307(f) purchased gas cost filings, electric provider of last resort ("POLR") filings, Section 1307(e) filings, base rate cases, and UGI's gas management information technology systems. My government relations responsibilities include managing the development and implementation of the Company's strategies in federal and state legislative and regulatory arenas. My regulatory compliance responsibilities cover a broad range of oversight and compliance for the state and federal jurisdictional activities of UGI's four operating utilities. Prior to my role as Chief Regulatory Officer, I was Vice President – Rates & Government Relations and Vice President & General Manager – Electric Utilities. In my current role I report directly to the President and Chief Executive Officer of UGI.

Q. What is your educational and professional background?

A. Please see my resume, UGI Exhibit PJS-1, which is attached to my testimony.

Q. Have you testified previously before this Commission?

A. Yes. UGI Exhibit PJS-1 contains a list of those proceedings.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes. In addition to UGI Exhibit PJS-1 mentioned above, I am sponsoring UGI Exhibit PJS-2, which is the Application initially filed by the Companies in this proceeding.

II. PURPOSE OF TESTIMONY

Q. Please describe the purpose of your testimony in this proceeding.

A. My testimony addresses several issues. First, I present an overview of the Company's request, as described in the Company's application, to merge UGI CPG and UGI PNG with and into UGI. Second, I will provide additional background on the Company's efforts to date to integrate UGI CPG and UGI PNG as wholly owned subsidiaries of UGI, the efficiencies experienced to date, and the remaining efficiencies that can be obtained as a result of eliminating UGI CPG and UGI PNG as separate and distinct corporate entities through the merger. Third, I will discuss how the proposed merger should benefit the Companies' gas customers. Fourth, I will briefly discuss the benefits to our employees. Fifth, I will discuss the potential benefits to the competitive marketplace.

III. OVERVIEW OF THE COMPANIES' APPLICATION

Q. Please discuss the relief that the Companies are requesting in this proceeding.

A. As more fully discussed in the Companies' Application (attached hereto as Exhibit PJS-2), the Companies are requesting the Commission to approve the merger of UGI CPG and UGI PNG, UGI's currently wholly-owned, and commonly managed and operated utility subsidiaries, with and into UGI to form a consolidated UGI Gas Division. Upon closing, all of the assets of UGI PNG and UGI CPG will be owned by UGI Utilities. The consolidated UGI Gas Division will become the gas utility in the service territories currently served by UGI Gas, UGI CPG and UGI PNG, and will adopt the existing UGI Gas, UGI CPG and UGI PNG gas service tariffs unchanged except for the utility named in the tariff, which will be UGI Utilities, Inc. - Gas Division. For tariff purposes, the consolidated UGI Gas Division will be divided into three rate districts: UGI South (formerly UGI Gas), UGI Central (formerly UGI CPG), and UGI North (formerly UGI PNG), until such time as uniform rates are established.

Q. Why are the Companies proposing to merge UGI CPG and UGI PNG with and into UGI at this time?

A. While substantial benefits have been obtained from integrating the operations of UGI CPG and UGI PNG since these companies were acquired in 2008 and 2006, respectively, additional efficiencies can be obtained by eliminating UGI CPG and UGI PNG as separate corporate entities. These efficiencies come in the form of administrative, regulatory, capital deployment and operational gains which, once achieved, will allow the

Company to process necessary tasks more efficiently, without regard to corporate form, and focus on improving quality of work and service to customers rather than maintaining and operating the gas utilities as three separate corporate entities. Moreover, the merger is an essential first step to achieving additional efficiencies and savings once uniform rates and service terms are established in future proceedings.

The Company's experience and expectations in this area have been guided by experience with the UGI-1 initiative, which I will discuss later in my testimony. Briefly, however, that initiative will provide a common set of systems and processes for the operation and management of the three gas companies which, in concert with the merger of three businesses, will provide additional benefits and synergies. With the UGI-1 initiative, the operations and management of the three utility companies will, for all intents and purposes, be fully integrated. The merger of the companies will permit the form of corporate organization to match the actual operation and management of the companies.

Q. Please give a brief description of the Applicants.

A. First, UGI is a corporation organized and existing under the laws of the Commonwealth of Pennsylvania. UGI is a wholly-owned direct subsidiary of UGI Corporation. UGI itself is the result of a number of merged predecessor companies dating back to the 19^{th} century, and is a "public utility" as defined in Section 102 of the Code, 66 Pa. C. S. § 102. UGI operates two public utility divisions – UGI GasUGI Electric. UGI Gas is a "natural gas distribution company" and a "supplier of last resort" as defined in Sections 2202 and 2207 of the Public Utility Code ("Code"). 66 Pa. C.S. §§ 2202, 2207. UGI Gas provides natural gas distribution service to approximately 386,000 customers throughout a service territory which includes all or portions of sixteen counties in Central and Eastern Pennsylvania. UGI Electric is an "electric distribution company" as defined in Section 2803 of the Code and renders services to 62,000 customers within portions of Luzerne and Wyoming Counties in Northeast Pennsylvania. A map of UGI's gas territory is found in Appendix B to UGI Exhibit PJS-2, attached hereto.

Following the merger, current UGI Gas will become a natural gas distribution rate district ("UGI South") of the consolidated UGI Gas, which will provide natural gas distribution service within the current UGI Gas service territory through application of UGI Gas's then existing tariff that consolidated UGI Gas will adopt and apply within the UGI South rate district. UGI Electric will remain as an operating division of UGI.

Next, UGI PNG is a corporation organized and existing under the laws of Commonwealth of Pennsylvania. UGI PNG is itself the result of the merger and acquisition of several gas companies dating back well into the 20th century, and is a wholly-owned subsidiary of UGI. UGI PNG began its operations on August 24, 2006, following UGI Utilities' purchase from Southern Union Company of the Pennsylvania of the natural gas distribution assets formerly operated as PG Energy Division of Southern Union Company, as authorized by a Commission Order entered on August 18, 2006, at Docket Nos. A-125146F5000, et al. UGI PNG is a "public utility," a "natural gas distribution company," and a "supplier of last resort" as defined in Sections 102, 2202, and 2207 of the Code. 66 Pa. C.S. §§ 102, 2202, 2207. UGI PNG provides natural gas distribution service to approximately 168,000 customers throughout its certificated service territory, which includes all or portions of thirteen counties in Northern and

Central Pennsylvania. A map of UGI PNG's service territory is found in Appendix D to UGI Exhibit PJS-2, attached hereto.

Following the merger, UGI PNG will become a natural gas distribution service and rate district ("UGI North") of UGI Gas, which will provide natural gas distribution service within the current UGI PNG service territory through application of UGI PNG's then existing tariff that UGI Gas will adopt and apply within the UGI North rate district.

Finally, UGI CPG is a corporation organized and existing under the laws of the Commonwealth of Pennsylvania. UGI CPG is a wholly-owned subsidiary of UGI Utilities. UGI CPG, formerly PPL Gas Utilities Corporation, was acquired by UGI Utilities on October 1, 2008, as authorized by a Commission Order entered on August 21, 2008, at Docket Nos. A-2008-2034045 *et al*. Prior to that acquisition, PPL Gas itself was the result of several mergers and acquisitions authorized by the PUC. *See, e.g., Joint application of PPL Gas Utilities Corp., North Penn Gas Company, and PFG Gas, Inc.*, Docket Nos. A-125127, et al., 2004 Pa. PUC LEXIS 757 (Order entered July 12, 2004); *Application of Allied Gas Company et al.*, Docket No. A-120650F002 (order approving merger and restructuring entered January 27, 1995). UGI CPG is a "public utility," a "natural gas distribution company," and a "supplier of last resort" as defined in Sections 102, 2202, and 2207 of the Code. 66 Pa. C.S. §§ 102, 2202, 2207. UGI CPG provides natural gas distribution service to approximately 85,000 customers throughout its certificated service territory, which includes all or portions of thirty-six counties across Pennsylvania. A map of UGI CPG's service territory is found in Appendix F to UGI Exhibit PJS-2, attached hereto.

Following the merger, UGI CPG will become a natural gas distribution service

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and rate district ("UGI Central") of UGI Gas, which will provide natural gas distribution service within the former UGI CPG service territory through application of UGI CPG's then existing tariff that UGI Gas shall adopt and apply within the UGI Central rate district.

IV. MANAGEMENT STRUCTURE PRE-AND POST-MERGER

Q. Please describe the current management structure for the Companies.

A. The Companies are currently managed in a corporate center fashion by a common slate of officers who have budget and operational responsibilities over all of the Companies. As examples, the Companies have the same President & Chief Executive Officer; Chief Financial Officer; Chief Information Officer; Vice-President, Gas Operations; Vice-President, Engineering; Vice-President, Customer Operations; Vice President, Human Resources; Chief Regulatory Officer; Controller and Principal Accounting Officer. Essentially all employees who directly report to these officers, and most employees that perform administrative and general functions within the Company (executive, financial planning and accounting, gas supply, human resources, rates and governmental affairs, engineering, procurement, safety, etc.), are employees of UGI. Field level employees, their managers, and some administrative personnel have remained employees of the different operating companies, whether UGI, UGI CPG, or UGI PNG, although in many instances these personnel perform functions that benefit more than one of the utility companies requiring additional administrative tracking.

Q. How will this management structure change with the merger?

A. The management structure will remain essentially unchanged. However, the various corporate governance and financial management and accounting activities of UGI CPG and UGI PNG will be eliminated as separately managed functions, and all employees will become employees of UGI. This reduction in administrative tasks due to the elimination of UGI CPG and UGI PNG as separate corporate forms will result in additional efficiency savings.

Q. How are the salaries, wages, and benefits of the employees who provide common services currently assigned or allocated among the Companies?

A. Pursuant to a Commission-approved affiliated interest agreement, payroll and benefits of employees in the corporate center are allocated to UGI Gas, UGI CPG, UGI PNG, and UGI Electric using the Modified-Wisconsin Formula (MWF). The costs of other employees who provide service routinely to one or more of the businesses are allocated in accordance with pre-determined formulae that are based on the percentage of time the employees spend on each of the Companies' business. The cost of other employees who only sporadically work on specific projects for one or more of the businesses complete project time sheets showing the time they spend on those projects; otherwise their costs are directly assigned to the appropriate corporate entity (UGI CPG, UGI PNG and UGI). These formulae also factor in the percentage of payroll and benefits assigned to capital and expense projects.

Q. How are non-payroll and benefit costs assigned or allocated to the Companies?

A. Similar to payroll and benefits, costs associated with non-payroll and benefits purchases are either direct assigned or allocated to the entities that benefit from the purchase, whether the cost is expensed or capitalized.

Q. Please describe the resources currently used to allocate or assign costs among the various businesses.

A. The current process is complex and time-consuming. A group within the Accounting Department is responsible for the process, which requires input from Human Resources and individual employees throughout the organization who perform work for more than one of the utility businesses. Thousands of employee-hours are currently spent on the allocation and assignment of costs between and among the gas and electric businesses in the accounting function alone, and comparable amounts of time are spent throughout the organization managing time-accounting, intra-company transactions, and allocation of costs to the three corporate entities.

Q. How will these cost assignment or allocation methodologies will change post-merger?

A. After the merger, all costs incurred by UGI should be directly assigned to UGI Gas or UGI Electric depending on the nature of the costs, except where the costs are incurred for both UGI Gas and UGI Electric in common, in which case the cost would be allocated in accordance with the Modified-Wisconsin Formula. The accounting processes for charging specific costs to capital and expense would be left unchanged. No further sub-division of these costs to the individual gas rate districts would be necessary or appropriate.

Q. Why would the further sub-division of costs to the individual gas rate districts not be necessary or appropriate?

A. As discussed in the next section, an important benefit for the merger is to operate the business more efficiently as one corporation rather than as three separate corporations. Tasks that are now performed only because of the separate corporate form can be eliminated. For example, measuring the financial performance of each rate district will be unnecessary in the context of a single corporation except to measure the cost of providing different forms of service (gas versus electric). Prospective rates will be established at the time of future rate case filings and will be set based on a common revenue requirement and an overall class cost of service study. Otherwise, the Company would be required to treat the individual rate districts as separate utility companies, which they will not be, and would forestall the opportunity to increase the efficiency of the business.

V. <u>INTEGRATION ACTIVITY SINCE UGI'S ACQUISITION OF UGI PNG AND UGI CPG</u>

Q. You mentioned earlier in your testimony that the UGI-1 initiative is part of the Companies' efforts to create a common, integrated platform for providing service. Please describe the UGI-1 initiative.

A. In addition to developing an integrated, common management structure that I discussed in the previous section of my testimony, the Companies have engaged in substantial efforts to integrate other aspects of the business. UGI-1 is a company-wide management effectiveness initiative focusing on people, tools and processes. UGI and its utility affiliates have a history of pursuing excellent performance for their customers, employees and shareholders.

With UGI-1, the Company is building on this past performance to provide even better service in the future. Throughout the areas served by the Companies, UGI is experiencing stable growth opportunities as well as significant operational challenges. To act on these opportunities and to address these challenges, the UGI utility businesses are taking advantage of synergies, equipping employees for future success, and improving communications throughout the organization. By implementing these initiatives, the UGI businesses are being positioned for continued growth and success and outstanding customer service.

UGI-1 includes a number of fundamental improvement efforts, including such programs as: UNITE technology improvement project; our "Making a Difference" safety improvement program; the migration of all employee computer workstations to a set of common workplace applications; the migration of all field employees to a single set of gas operations and construction processes and specifications; building and grounds improvements and renovations; natural gas pipeline facility extension and betterment programs; an enhanced focus on physical and cyber security; and a range of enhanced and expanded employee development and training programs.

Q. How do the changes envisioned by UGI-1 benefit customers?

A. The overall goal of UGI-1 is to place all of our operations on a common set of information systems, tools, equipment, and uniform work management and performance platforms. This will allow the Company to become more efficient and effective in performing all aspects of its business, including handling calls from customers, performing billing and related activities, constructing new distribution facilities, operating and maintaining the gas distribution system, and managing emergencies. An effective and common system of performing and measuring performance among our geographically disparate service territories and segments thereof will also expedite identification of problems that can be corrected more readily or even before they happen, driving further efficiency gains and service improvements.

Fully integrating three separately regulated natural gas distribution systems (UGI Gas, UGI CPG, and UGI PNG) into one gas business along with UGI Electric will enable the Company to ensure that costs incurred to provide service reflect a common way of doing our work. As discussed elsewhere in my testimony, this will help eliminate some differences in cost drivers to the extent feasible and where demographics (sparsely versus densely populated) or industry (natural gas versus electric) factors do not dictate the result.

Q. Please provide some examples of the operational benefits that are being derived from the UGI-1 initiative.

A. There have been several improvements in the operations area. For example, UGI has made a concerted effort to establish and implement a common methodology for rating the severity of natural gas system leaks to place all of UGI's gas distribution systems in line with the Gas Pipeline Technology Committee standard. Now that this common rating system has been established and implemented, the Companies are better situated to allocate their pipeline replacement, leak survey and repair, financial, internal labor, and contractor resources to the geographic areas that require the most attention based on uniform measures of risk. This common approach to regulatory compliance has achieved significant improvements to system safety performance over the past two years, including reductions in hazardous leaks and leak inventories. UGI's common set of initiatives in workplace safety, Pennsylvania 1-Call, and its Distribution Integrity Management Program ("DIMP") have begun to bear fruit in terms of achieving improved safety based on measurable performance criteria.

Q. Are there examples of additional improved customer service performance?

A. Yes. More recently, UGI's Commission-approved GET Gas Pilot Program has been nationally recognized as an innovative tariff mechanism designed to expand natural gas service to unserved and underserved areas in and around the Company's gas distribution service territory.

Also, as part of UGI's UNITE initiative, recently approved tariff provisions for UGI PNG and UGI Electric will allow joint billing of natural gas and electric services on one bill for UGI customers who receive both gas and electric service from UGI, providing for greater customer convenience and customer satisfaction.

Q. You mentioned earlier in your testimony the Company's UNITE initiative as part of UGI-1. Please discuss.

A. As noted earlier, UNITE stands for UGI's Next Information Technology Enterprise. In September 2017, UNITE replaced and updated UGI PNG's core, non-financial computer systems including the Customer Information System (“CIS”). Principally, with regard to the CIS replacement work, two aging CISs were replaced with one state-of-the-art system, which now operates in common among all of the utility businesses. Having a common CIS allows customers to benefit from a common set of processes that maximize the efficiency of rendering service to its customers at a reasonable cost. This initiative allows employees system wide to provide safer and more reliable service in the field and to address other concerns related to billing and affordability of service. The new CIS also provides a technology platform which is allowing the Company to enhance online service experiences with more robust capabilities. Importantly, this new system also supports key Choice customer business processes, including seamless moves, instant connects and more efficient switching between suppliers.

Future phases of UNITE will address a number of objectives including: reducing operational risks related to the age of certain applications where there is no vendor support and the IT resources who know the systems best are soon retiring; improving operational capabilities with new "scalable" technology platforms; standardizing and reducing the number of systems and duplicate processes across UGI; improving business information to make more informed business decisions; and gaining efficiency related to process and system integration.

For example, UGI recently kicked off the UNITE Phase 2 project to replace in its entirety its aging financial system with an SAP-based system that will allow the business, to use one integrated financial system to account for all of the costs, revenues, and cash movements of our utility business throughout the organization -, from field operations, to billing, gas supply and procurement functions, and to the finance, accounting, and reporting functions,. This system will allow UGI to move away from many lesser efficient, manual functions that currently employed in these areas.

Q. Has the Company made other efforts to make the Company's service more economic for its customers?

A. Yes. A series of gas portfolio changes in conjunction with structural gas supply market changes have allowed UGI, UGI CPG, and UGI PNG to maximize the purchase of natural gas from the recently developed prolific Marcellus and Utica Shale gas productions. While in the not too distant past the majority of UGI natural gas purchases came from the southern Gulf, today nearly all of our natural gas purchases are physically sourced from Marcellus and Utica Shale sources. The impact related to shale gas on pricing has been significant. As of December 31, 2008, the first quarter after the UGI CPG acquisition was consummated, the average cost of gas supplied to our customers, inclusive of commodity and demand charges was $11.05 per mcf; today it is $4.96. This $6.09 per mcf reduction in gas costs not only represents the significant impact shale production has had on natural gas pricing nationwide, but it also demonstrates the impact of UGI's efforts to focus on creating value for its customers by working to reshape its supply portfolio and reduce now unnecessary long haul pipeline transportation costs.

Q. How will the merger of the Companies enhance the UGI-1initiative?

A. UGI-1 has allowed the Company to begin to function as one Company in many areas where functions may be consolidated and driven to a common platform. However, the full benefits of UGI-1 cannot be achieved while the Companies remain as separate corporate entities. Consistent with the UGI-1 goals, elimination of those corporate structure differences will allow the Company to bring together a number of functions into one, simple format. In this way, form will follow function to the benefits of customers and the public.

VI. BENEFITS OF THE MERGER

Q. Mr. Szykman, earlier in your testimony, you indicated that there are benefits to be enjoyed by implementing the proposed merger. Please discuss.

A. As alluded to earlier in my testimony, several benefits will accrue from the merger for the long-term benefit of the consolidated company's customers, including but not limited to: (a) increased administrative efficiency; (b) increased operational efficiency; (c) increased capital efficiency; and (d) increased regulatory efficiency. The proposed merger will produce immediate benefits and is a critical first step in order to achieve and realize longer-term future benefits once rates and other terms of service are unified.

UGI Gas and UGI Electric, UGI PNG, and UGI CPG have been operating under one corporate umbrella since 2006 for UGI PNG and 2008 for UGI CPG, when UGI PNG and UGI CPG were acquired by UGI. As referenced earlier in my testimony, during this time, the Company has made major strides to combine the operations and administration of these separate natural gas utilities, including certain tariff rules, regulations and service offerings. These efforts have included consolidation of all administrative and general, and most non-field, field management and executive functions for the three businesses into UGI. Moreover, standardization of tariff terms, conditions and rate offerings has been pursued as part of rate case activities since the UGI

PNG and UGI CPG acquisitions occurred. The proposed merger is fully consistent with the long-term goal of a single company operation, and the efficiencies that may be obtained therefrom. The proposed merger of UGI Gas, UGI PNG, and UGI CPG into one natural gas distribution company will produce its own efficiencies, as explained below, and will more formally reflect and incorporate actual operations.

In the context of the proposed merger, however, one should not expect to see the same level of synergies that might result from the acquisition by one utility of an unrelated, unaffiliated utility. When two, separately owned, utilities with independent management and operations merge, the opportunity for efficiency gains is much greater than when the businesses are already collectively owned and managed as with the Companies. However, the next step of merging the three companies into one Company will allow UGI to obtain additional efficiencies that can be gained through the elimination of the separate corporate forms as is being proposed here. At the same time, the affirmative benefits that can be derived from the merger of UGI, UGI PNG and UGI CPG are still significant for our customers, employees, the Commission and its staff, and other stakeholders and may be obtained without any harm to these stakeholders.

A. <u>Administrative Efficiency</u>

Q. Please discuss the administrative efficiencies the Company expects to result from the merger.

A. Increased administrative efficiency is perhaps the most obvious benefit to consolidating three utility companies into one company. Functions that will benefit include accounting, gas supply, cash management, procurement, and regulatory filings. As separate utility companies, UGI Gas, UGI CPG, and UGI PNG are each required to: maintain separate books of account, income statements, and balance sheets; record separate transactions where each business renders service to the other and where each business deals with the same vendor for the same types of goods and services; and make numerous separate tax, corporate and regulatory filings.

By merging the three entities only one set of books of accounts, income statements, and balance sheets will be needed, all of the current inter-company transactions among the gas businesses can be eliminated, layers of transactions among the three gas utilities with the same vendors will be reduced to single sets of transactions with UGI, and layers of regulatory, tax, and other governmental filings will be eliminated.

Q. Are you able to quantify the savings that will be achieved by eliminating regulatory and tax filings as a result of the merger?

A. While the Company has not conducted an exhaustive study of the administrative benefits throughout the organization, there are some notable examples. Presently, the Companies make approximately 330 regulatory, tax, and other governmental filings on a periodic basis. These filings are made on a quarterly, annual, or other basis. The Company estimates that approximately 100 of these filings would be eliminated as a result of the merger. This will result in administrative efficiency, albeit some initial work will be required to integrate the reportable data into the single company format. We believe that the need to prepare and file approximately 80 percent of the 100 redundant filings goes away upon merger while the remaining can be eliminated when the Company's rate districts achieve uniform rates.

Q. Have you estimated the amount of employee-hour savings that will be accomplished through integrating the three gas utilities into one consolidated UGI Gas Division?

A. We have not performed a full analysis at this time. We have examined some accounting functions at a high level and estimate that thousands of hours of time efficiencies could be obtained through the merger. In particular, we have estimate that more than 3,356 man-hours will be saved in the invoice, cash, cost allocation, and certain other functions. Similar savings could be obtained in procurement and other functions that are performed currently in order to make sure that the purchases are recorded and charged to the correct corporate entity. Additional savings could be obtained in the gas supply function if we could eliminate the need to enter into, track and account for a significant number of gas purchase and sale transactions between UGI CPG, UGI PNG, and UGI Gas.

Q. Does the Company recognize that many duplicate and triplicate functions cannot be fully eliminated or consolidated until further authorizations are received from the PUC?

A. Yes, because the rates of the three gas rate districts will remain unchanged and different initially and until such time as the Company is permitted to move towards a uniform rates, costs recovered through non-base rate cost recovery mechanisms (*e.g.*, DSIC-eligible plant, purchased gas costs, Universal Service Programs, EE&C, etc.) will continue to be tracked by service and rate district.

The functions that the Company intends to keep on a separate rate district basis for the time being are listed in paragraph 40 of the Application, as follows:

- **a.** Purchased gas cost portfolios and rates;
- **b.** Energy Efficiency and Conservation ("EE&C") programs;
- **c.** Universal Service Program Budgets and targets;
- **d.** Growth Extension Tariff ("GET Gas") budgets and reporting obligations;
- **e.** Lost and Unaccounted For studies and reports;
- **f.** Purchase of Receivable Programs;
- **g.** Choice program rules and requirements;
- **h.** Long-Term Infrastructure Programs ("LTIIP");
- **i.** Distribution System Improvement Charges ("DSIC"), with the only change in operation being that UGI Gas will prospectively determine if DSIC re-sets under 66 Pa. C.S. §1358(b)(3) are required by reference to its consolidated quarterly financial reports; and
- **j.** State Tax Adjustment Surcharge rates.

The Company estimates that there are approximately two dozen routine filings made to the Commission covered by these functions. The need for the duplicate and triplicate reports, however, would be eliminated at such time when the Commission approves uniform rates for the three rate districts. Again, the merger of the three companies is an essential first step in realizing these additional efficiencies and savings.

B. <u>Operational Efficiency</u>

Q. Please discuss the operational efficiencies that the Company has identified in connection with the merger.

A. Again, the Company has not performed a comprehensive analysis of the operational efficiencies that will result from the merger. However, we have identified at least three areas where the merger will result in operating efficiencies: gas supply transactions, information technology, and natural gas infrastructure.

First, as part of its gas supply function, the Companies currently manage three separate portfolios. Due to the contiguous and in some cases, overlapping or interconnected portions of the three service territories, the Companies engage in numerous inter-company gas supply transactions that need to be recorded and reconciled. Each of those transactions must be entered into our gas transaction information system and accounted for to ensure that the dollars associated with the transaction are assigned to the correct legal entity. These transactions can involve deliveries directly from the interstate pipeline system or at interconnections between two of the distributions systems. Elimination of this tracking and accounting would allow our gas supply personnel to focus more on improving our gas supply processes rather than processing transactions that are only necessary due to different corporate forms. Again, approval of the merger is an essential first step to realizing these additional savings and efficiencies.

Second, and more immediately, the Companies have identified potential areas of interconnection among them that would allow more cost-effective system reinforcement projects. A review of the map provided in UGI Exhibit PJS-2 shows numerous instances where the service territories of the three proposed rate districts are adjacent to each other. Throughout these locations, future interconnections between distribution systems would provide system reliability and reinforcement benefits. Among these locations are Shoemakersville (UGI Gas -UGI CPG), Lewisburg (UGI CPG-UGI PNG), Pittston (UGI CPG-UGI PNG), and Northumberland (UGI CPG-UGI PNG). Furthermore, as the distribution systems continue to grow and extend towards each other, additional interconnect opportunities are certain to arise, such as along State Route 611 in the Stroudsburg / Mt. Pocono area (UGI Gas -UGI CPG). While there are currently several system interconnects between the companies, they are limited to major transfer points because of the requirement for metering equipment necessary to track volumes delivered into the downstream utility, the need to track and assign the cost of the transportation service provided to the downstream utility, and the need to track the related gas supply costs. Subsequent to the merger, and following the eventual consolidation of rate districts, a greater number of interconnects within the distribution systems becomes more practical and cost-effective.

Additionally, combining UGI Gas, UGI CPG, and UGI PNG will simplify future asset management system configurations as the operating division will be organized under a single corporate structure. UGI plans over the next several years to replace aging IT systems that are utilized in project planning, work management, mapping, record management, etc. Planning these systems based on a merged entity should reduce project coding costs and ongoing operating costs. From the basic tasks of updating rates into the billing system to updating data, blending this information into one uniform and singular format will make updating that information simpler and more efficient.

C. Capital Efficiency

Q. Please explain how the merger will enable UGI to become more capital efficient.

A. Currently, UGI is the source of long-term debt and a level of working capital financing for UGI, UGI CPG, and UGI PNG. Cash requirements of UGI CPG and UGI PNG are, in part, met from funds loaned by UGI out of its cash reserves that are augmented by debt issued exclusively by UGI. These debt and financing arrangements have been approved by the Commission through the issuance of securities certificates and affiliate interest arrangements.

Post-merger, the arrangements internal to the three companies will be eliminated and UGI will no longer need to address the capital requirements of the separate subsidiaries except as part of UGI, and all capital requirements will be blended into one tier at UGI, thereby eliminating the need to service the subsidiary loan requirements.

The efficiency discussed here is similar to the administrative efficiencies discussed above. The cash transactions between the Companies will no longer be necessary due to the consolidated corporate entity, and the same is true for the inter-company debt and financing arrangements, tracking separate bank accounts of different corporations, and other redundant cash management activities. This reduction in activity will allow the Company's cash management function to operate more efficiently.

D. <u>Regulatory Efficiency</u>

Q. Please discuss the efficiencies that can be obtained in the regulatory context.

A. As discussed in the context of administrative efficiency, UGI Gas, UGI CPG, and UGI PNG currently interface with the Commission in triplicate across a broad spectrum of issues and matters. As noted above in the Administrative Efficiencies section, this includes a substantial number of annual, quarterly, and other periodic filings submitted to the Commission, including but not limited to: Annual Reports filed pursuant to 52 Pa.

Code §59.48; Chapter 71 earnings reports; Chapter 73 depreciation reports; base rate proceedings, Purchased Gas Cost filings; and DSIC filings; LTIIP filings; and Asset Optimization Plan filings. Currently, each report and filing is separately made for UGI Gas, UGI PNG and UGI CPG and, where applicable, is subject to regulatory scrutiny in triplicate. The need for multiple submissions places resource burdens on the three companies, from initial preparation of three filings, to managing and responding to three sets of data requests, and litigating three matters to a final decision by the Commission. It also places burdens on several departments within the Commission staff to process, act upon, and to decide issues presented where formal action is required and requires other parties such as the Office of Consumer Advocate and Office of Small Business Advocate to expend valuable resources to evaluate and participate in related proceedings.

The savings from rate litigation alone is substantial. Just from a general rate case expense perspective alone, we believe that the savings among the Companies could be in the magnitude of $500,000- $1,000,000 in legal and expert fees every four years. Lesser but still substantial savings would be derived from single LTIIP filings, single PGC filings, single Asset Optimization Plan filings, etc. Parties to those proceedings would expend fewer resources hiring consultants and devoting internal resources to UGI Gas matters.

Similarly, the Companies today have a number of affiliated interest agreements for various services, provided between and among themselves, the cost of which need to be separately tracked in accordance with those agreements. These arrangements are necessitated only because of the separate corporate forms of UGI, UGI CPG, and UGI PNG. Once the corporations are merged, the need to charge costs among the corporations disappears and the need for the agreements disappears. Accordingly, the Commission benefits by not having to manage the inter-affiliate relations of UGI CPG, UGI PNG, and UGI because they will be part of one consolidated public utility with a Gas Division and an Electric Division.

Q. How would the Commission ensure that the costs being allocated among the different rate districts are reasonable without affiliate interest agreements?

A. The opportunity for reasonable cost allocation review will remain in the context of a general rate proceeding before the Commission through the use of a class cost of service study. Because there is no difference in the quality of the service among the rate districts, it would be unnecessary to maintain costs structure differences among them. Separate financial reporting and cost accounting between the Electric Division and the consolidated Gas Division would be maintained.

Q. Are there other regulatory benefits?

A. Yes. The proposed merger is the first step to eliminate the need for multiple filings and reports to the Commission. Merging UGI Gas, UGI PNG, and UGI CPG into one gas utility will reduce the number of filings and reports required to be submitted, and reduce the amount of effort the Commission and its staff, as well as other public parties, will need to expend to provide regulatory oversight of UGI Utility's natural gas distribution business. The merger will simplify the relationship between UGI and the Commission, and other stakeholders by combining the three gas utilities into one. This combination will enable the Commission to measure UGI Gas's performance as one gas utility, and ensure that service to our customers is safe and reliable, and that our rates are just and reasonable.

As discussed above, while some filings (*e.g.*, DSIC-eligible plant, purchased gas costs, Universal Service Programs, EE&C, etc.) will initially need to be submitted separately for each rate district, the efforts to do so are small compared to the time savings obtainable by the merger and would be eliminated through future consolidated filings that UGI would propose and the Commission would review in the future.

VII. IMPACTS ON CUSTOMERS, EMPLOYEES, AND THE COMPETITIVE MARKETPLACE

A. Customers

Q. Mr. Szykman, how will the merger affect the Company's customers?

A. Our customers will experience significant benefits from the merger from the efficiencies discussed in Section V. of my testimony. Many of these benefits will occur immediately or shortly after the merger, while some other benefits will not occur until uniform rates are established. Approval of the merger, however, is an essential first step in the process towards achieving these benefits. And, in the meantime, the Company's cost structure should remain below what it otherwise would have been without the merger, all else being equal.

Another source of benefits will be the future elimination of the various programmatic differences between UGI CPG, UGI PNG and UGI Gas that exist merely because of the historic happenstance of operating three separate gas utilities. These differences include the fact that 1) while UGI PNG and UGI Gas both have Energy

Efficiency and Conservation (EE&C) Programs, UGI CPG does not; 2) differences among the various choice and transportation programs; and 3) differences among the rates charged to our customers. Elimination of the differences in the first two categories should be relatively neutral as the existing differences are typically in tariff rules governing minor aspects of the Company relationship with its customers. As for the third category, merging the costs structures of the three separate utilities will not affect the Company's overall revenue requirement, but some customers will ultimately see higher rates than they might otherwise due to the differences in the current cost structure, but at the same time, other customers will see lower rates. Importantly, however, customer rates will not change as a result of the merger. And, any changes in customer rates as a result of uniform rates cannot occur without prior Commission approval. In any event, there are various ratemaking tools to mitigate the impact by moving customers to uniform rates gradually over time.

In addition, it is important to recognize that each of UGI CPG, UGI PNG and UGI Gas have long histories of mergers and acquisitions. UGI Gas is the result of the consolidation of a number of independently-owned or spun-off gas businesses having different costs structures and rates charged to their respective customers. The same is true for UGI CPG and UGI PNG. However, in each case, the rate structures and rates from each of the rate districts within each of UGI CPG, UGI PNG and UGI Gas were blended into one either upon acquisition or over time. Similarly, the rate structures of the UGI North, UGI Central, and UGI South can be blended over time with Commission oversight and approval.

Q. How will the merger affect low income customers and the Company's Universal Service Programs?

A. The merger should result in little change to service provided to low income customers, whether for those who participate in Universal Services programs or for those who do not. The Companies' Universal Service Programs today are managed in an integrated fashion by a group within our Customer Operations Department and share common sets of systems, rules and processes. Program rules and other characteristics will continue to be reviewed and approved by the Commission post-merger through the Triennial Universal Service Program Filings.

Q. Will the Company continue to use community-based organizations (CBOs) in the administration and operation of its Universal Services Programs.

A. Yes. The merger itself will have no impact on our use of CBOs in our Universal Services Programs. The Company reserves the right, however, to modify its programs subject to Commission approval for the purpose of making the programs more effective. So long as the CBOs remain effective participants, their role should remain materially unchanged.

Q. Will low income customers under the Company's Customer Assistance Programs (CAP) experience changes in the amount they pay?

A. No. Upon completion of the merger, rate districts will be retained and there will be no impact on CAP customers. As the percentage of income plans for each rate district will not change as a result of the merger, CAP customers will be unaffected.

Q. Does the Company propose a measure of tracking Universal Service program participation after the merger?

A. Yes, the Company intends to develop a baseline for CAP participation as of the closing date of the merger. This will measure CAP and LIURP participation by geographic area. We will then re-measure participation at the end of each fiscal year. These statistics will be available to the Commission and the parties to this proceeding. These statistics will enable the Company to measure the effectiveness of our Universal Services programs throughout the consolidated gas service territory.

B. <u>Employees</u>

Q. How will the merger affect the Company's employees?

A. The merger will favorably impact the Company's employees in a number of contexts. First, employees who see their administrative, accounting and regulatory functions simplified will have the opportunity to develop greater proficiency in other work functions, which will benefit their career development. With UGI-1 and the UNITE program, the Company needs employees who are proficient users of related new information systems as subject matter experts on those systems. Freeing up the time of the employees whose work will be simplified by the merger, will allow those employees to focus their energies on learning the new systems, developing new processes around them and to train new employees to become proficient more rapidly.

Second, and relatedly, where task simplification may cause the Company to require fewer employees, those affected employees will have more succession planning opportunities than exist currently. As employees retire and otherwise naturally leave the business, opportunities will arise that place existing employees in a better position for succession planning than under the separate corporate form where employees have less opportunity to learn additional functions and develop their careers because they are required to perform tasks that are otherwise unnecessary in a merged business.

Third, the bulk of the employees who work in the field, including employees subject to collective bargaining and related contracts, will be unaffected by the merger. Field work will continue to be driven by the needs of our customers, system operating risk, and growth opportunities. As operating synergies allow us to plan for supply and infrastructure development more cost-effectively, more growth opportunity will occur and the amount of field work performed by our employees will increase, thereby benefitting the Company's field employees, as has occurred over the past few years with the large increase in capital spending and initiatives at the field operations level.

C. <u>Impact on Competitive Natural Gas and Electric Markets</u>

Q. How will the merger affect the Company's gas choice and non-gas choice transportation marketplace, and the Company's electric choice marketplace?

A. The merger will benefit the competitive marketplace by providing the Company an opportunity to create additional uniform rules that improve the efficiency of the natural gas marketplace. Due to the historic circumstance of operating UGI Gas, UGI CPG, and UGI PNG as separate gas utilities, various differences in gas choice and non-gas choice rules exist among the systems despite significant movement toward commonality as part of prior rate cases to-date. As an example, only the UGI Gas system has a purchase of receivables program; UGI CPG and UGI PNG do not. Moreover, on the non-choice side, differences exist between the gas supply balancing rules. For example, a 10% basic daily balancing tolerance exists on UGI Gas and a 2.5% basic daily balancing tolerance exists on UGI CPG and UGI PNG. Other examples include the requirement that Natural Gas Suppliers have three separate natural gas supplier licenses if they want to do business on each of the three gas utilities; bond requirements are also calculated on a company by company basis rather than on a combined basis. The merger will have no significant impact on our electric choice competitive markets.

Q. Does the Company intend to continue movement towards uniform gas choice and non-gas choice transportation program rules in the future?

A. Yes. First, the Company intends to initiate a collaborative process open to all Natural Gas Suppliers and other stakeholders to discuss and, where consensus can be achieved, make a tariff filing to create uniform rules without the need to file a base rate proceeding. Second, for other areas where consensus cannot be achieved collaboratively, the Company will make a proposal to complete the move towards uniformity as part of a post-merger base rate case.

Q. What is the time table for accomplishing the first step?

A. The Company will initiate the collaborative process on the various program rule differences within thirty (30) days after the close of the merger. On the issues where consensus can be achieved, the Company will make a tariff filing in accordance with collaborative consensus. To be clear, all issues pertaining to the Company's gas choice and non-gas choice transportation markets may be raised in the collaborative.

Q. Does this conclude your direct testimony?

A. Yes, it does.

UGI Exhibit PJS-1

PAUL J. SZYKMAN

CHIEF REGULATORY OFFICER

May 2017 – Present	Chief Regulatory Officer UGI Utilities, Inc., Reading, PA
2015 – April 2017	Vice President – Rates & Government Relations Vice President & General Manager – Electric Utilities UGI Utilities, Inc., Reading, PA
2014 – 2015	Vice President – Rates & Government Relations UGI Utilities, Inc., Reading, PA
2008 – 2014	Vice President – Rates UGI Utilities, Inc., Reading, PA
2003 – 2008	Director, Rates & Gas Supply UGI Utilities, Inc., Reading, PA
2001 – 2003	Manager, Rates & Strategic Planning UGI Utilities, Inc., Reading, PA
1999 – 2001	Manager, Federal Regulatory Affairs & Contract Admin. UGI Utilities, Inc., Reading, PA
1999 – 1999	Principal AMS, Fairfax, VA
1996 – 1999	Manager, Rates & Strategic Planning UGI Utilities, Inc., Reading, PA
1994 – 1996	Supervisor, Transportation UGI Utilities, Inc., Reading, PA
1991 – 1994	Rate Designer UGI Utilities, Inc., Reading, PA
1989 – 1991	Market Research Analyst UGI Utilities, Inc., Reading, PA
1986 – 1989	Industrial / Commercial Representative UGI Utilities, Inc., Reading, PA
1981 – 1985	Penn State University B.S. Mechanical Engineering

Previous testimony before the Pennsylvania Public Utility Commission at Dockets:

R-00932927	UGI Utilities, Inc. – Gas Division; Restructuring (Supplement 91)
R-00016376	UGI Utilities, Inc. – Gas Divison; Stroehmann Bakeries
P-00032043	UGI Utilities, Inc. – Gas Division; Granger Energy
P-00032054	UGI Utilities, Inc. – Gas Division; Modification of Security Requirements
R-00049422	UGI Utilities, Inc. – Gas Division; Purchased Gas Cost 1307(f)
R-00050539	UGI Utilities, Inc. – Gas Division; Purchased Gas Cost 1307(f)
R-00061502	UGI Utilities, Inc. – Gas Division; Purchased Gas Cost 1307(f)
R-00072334	UGI Penn Natural Gas; Purchased Gas Cost 1307(f)
R-00072335	UGI Utilities, Inc. – Gas Division; Purchased Gas Cost 1307(f)
R-2008-2039284	UGI Penn Natural Gas; Purchased Gas Cost 1307(f)
R-2008-2039417	UGI Utilities, Inc. – Gas Division; Purchased Gas Cost 1307(f)
R-2008-2079675	UGI Central Penn Gas; Base Rate Case
R-2008-2079660	UGI Penn Natural Gas; Base Rate Case
R-2009-2105911	UGI Utilities, Inc. – Gas Division; Purchased Gas Cost 1307(f)
R-2009-2105904	UGI Penn Natural Gas; Purchased Gas Cost 1307(f)
R-2009-2105909	UGI Central Penn Gas; Purchased Gas Cost 1307(f)
R-2010-2214415	UGI Central Penn Gas; Base Rate Case
R-2015-2518438	UGI Utilities, Inc. – Gas Division; Base Rate Case
R-2016-2580030	UGI Penn Natural Gas; Base Rate Case
R-2017-2640058	UGI Electric; Base Rate Case

UGI Exhibit PJS-2

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March 8, 2018

VIA HAND DELIVERY

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: Joint Application of UGI Utilities, Inc., UGI Penn Natural Gas, Inc., and UGI Central Penn Gas, Inc. for All of the Necessary Authority, Approvals, and Certificates of Public Convenience for (1) an Agreement and Plan of Merger; (2) the Merger of UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc. into UGI Utilities, Inc.; (3) the initiation by UGI Utilities, Inc. of natural gas service in all territory in this Commonwealth where UGI Penn Natural Gas, Inc. and UGI Central Penn Gas do or may provide natural gas service; (4) the abandonment by UGI Penn Natural Gas, Inc. of all natural gas service in this Commonwealth; (5) the abandonment by UGI Central Penn Gas, Inc. of all natural gas service in this Commonwealth; (6) the adoption by UGI Utilities, Inc. of UGI Penn Natural Gas, Inc.'s and UGI Central Penn Gas, Inc.'s Existing Tariffs and their Application within New Service and Rate Districts of UGI Utilities, Inc. Corresponding to their Existing Service Territories as UGI North and UGI Central, Respectively; (7) the adoption by UGI Utilities of its Existing Tariff to be applied to a new UGI South Service and Rate District; (8) Where Necessary, Associated Affiliated Interest Agreements; and (9) any Other Approvals Necessary to Complete the Contemplated Transaction
Docket No. A-2018-__________

RECEIVED
2018 MAR -8 PM 3:27
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SECRETARY'S BUREAU
FRONT DESK

Dear Secretary Chiavetta:

Enclosed for filing, please find the Joint Application of UGI Utilities, Inc., UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc. In addition, enclosed is a check in the amount of $350.00 for the filing fee. Copies will be provided as indicated on the Certificate of Service.

Rosemary Chiavetta, Secretary
March 8, 2018
Page 2

Respectfully submitted,

David B. MacGregor (GPL)

David B. MacGregor

DBM/skr
Enclosures
cc: Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

VIA FIRST CLASS MAIL

John R. Evans
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Date: March 8, 2018

Garrett P. Lent

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Joint Application of UGI Utilities, Inc., UGI Penn Natural Gas, Inc., and UGI Central Penn Gas, Inc. for All of the Necessary Authority, Approvals, and Certificates of Public Convenience for (1) an Agreement and Plan of Merger; (2) the Merger of UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc. into UGI Utilities, Inc.; (3) the initiation by UGI Utilities, Inc. of natural gas service in all territory in this Commonwealth where UGI Penn Natural Gas, Inc. and UGI Central Penn Gas do or may provide natural gas service; (4) the abandonment by UGI Penn Natural Gas, Inc. of all natural gas service in this Commonwealth; (5) the abandonment by UGI Central Penn Gas, Inc. of all natural gas service in this Commonwealth; (6) the adoption by UGI Utilities, Inc. of UGI Penn Natural Gas, Inc.'s and UGI Central Penn Gas, Inc.'s Existing Tariffs and their Application within New Service and Rate Districts of UGI Utilities, Inc. Corresponding to their Existing Service Territories as UGI North and UGI Central, Respectively; (7) the adoption by UGI Utilities of its Existing Tariff to be applied to a new UGI South Service and Rate District; (8) Where Necessary, Associated Affiliated Interest Agreements; and (9) any Other Approvals Necessary to Complete the Contemplated Transaction	:	Docket No. A-2018-________________

**JOINT APPLICATION OF
UGI UTILITIES, INC., UGI PENN NATURAL GAS, INC.,
AND UGI CENTRAL PENN GAS, INC.**

I. INTRODUCTION

1. By this Application, UGI Utilities, Inc. ("UGI Utilities"), UGI Penn Natural Gas, Inc. ("PNG"), and UGI Central Penn Gas, Inc. ("CPG") (hereinafter, collectively, the "Applicants") hereby request all necessary authority, approvals and certificates of public convenience from the Pennsylvania Public Utility Commission (the "Commission") pursuant to Sections 1102(a)(1)-(3), 2102(a), and 2210 of the Public Utility Code ("Code"), 66 Pa. C.S. §§ 1102(a)(1)-(3), 2102(a), and 2210, authorizing: (1) an Agreement and Plan of Merger; (2) the merger of PNG and CPG with and into UGI Utilities; (3) the initiation by UGI Utilities, Inc. of natural gas service in all territory in this Commonwealth where UGI Penn Natural Gas, Inc. and UGI Central Penn Gas do or may provide natural gas service; (4) the abandonment by UGI Penn Natural Gas, Inc. of all natural gas service in this Commonwealth; (5) the abandonment by UGI Central Penn Gas, Inc. of all natural gas service in this Commonwealth; (6) adoption by UGI Utilities 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 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 seek all other approvals and certificates appropriate, customary, or necessary under the Code to carry out the transactions contemplated in this Application in a lawful manner. The Applicants request further that the Commission grant these authorizations by no later than August 23, 2018, so that the merger may close and become effective October 1, 2018, the beginning of UGI Utilities' fiscal and tax years.

2. The complete names and addresses of the Applicants are as follows:

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2525 N. 12 Street
Reading, PA 19482

UGI Penn Natural Gas, Inc.
2525 N. 12 Street
Reading, PA 19482

UGI Central Penn Gas, Inc.
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The Applicants' attorneys are authorized to receive all notices and communications regarding this Application.

3. This Application seeks certain approvals from the Commission associated with the proposed merger of PNG and CPG with and into UGI Utilities (the "Proposed Transaction"). The proposed transaction will be effectuated pursuant to an Agreement and Plan of Merger, attached hereto as "Appendix A".

4. As further explained in this Application, the proposed transaction will result in numerous affirmative benefits, including, but not limited to: the unification of three affiliated natural gas distribution companies into one company; increased uniformity of system operations and processes; and increased administrative, managerial, and operational efficiencies.

5. The Application is organized as follows:

- Section II provides a description of the Applicants and other related entities;
- Section III provides an overview of the Proposed Transaction;
- Section IV provides an overview of the post-merger operation of the merged companies;
- Section V sets forth the legal standards applicable to the approvals requested in the Application;
- Section VI demonstrates that the Proposed Transaction is in the public interest and should be approved;
- Section VII addresses the effect of the Proposed Transaction on retail gas competition and employees;
- Section VIII addresses certain affiliated interest agreements;
- Section IX sets forth the other regulatory approvals required;
- Section X sets forth additional supporting data;
- Section XI addresses notice of the Application; and
- Section XII sets forth the conclusion and requested approvals.

6. The Applicants submit, as explained in more detail herein, that all criteria necessary for granting of the required approvals pursuant to the Code have been met, and the Application therefore should be approved without conditions to or modification of the Proposed Transaction.

II. THE APPLICANTS AND RELATED ENTITIES

A. UGI UTILITIES, INC.

7. UGI Utilities is a corporation organized and existing under the laws of the Commonwealth of Pennsylvania. UGI Utilities is a wholly-owned direct subsidiary of UGI Corporation.

8. UGI Utilities began its modern corporate existence as part of a consolidation of a number of predecessor natural gas and electric public utilities into The United Gas Improvement Company, as approved by the Commission on June 16, 1952, at Docket No. A.78264. In 1968, The United Gas Improvement Company changed its name to UGI Corporation. In 1971, UGI Corporation's gas operations were consolidated into a gas division headquartered in Reading, Pennsylvania. In 1992, as part of a further corporate restructuring, UGI Corporation changed its name to UGI Utilities, and became a wholly-owned subsidiary of a new holding company which adopted the name UGI Corporation.

9. UGI Utilities is a "public utility" as defined in Section 102 of the Code, 66 Pa. C. S. § 102, that operates two public utility divisions – UGI Utilities, Inc. – Gas Division ("UGI Gas"), and UGI Utilities, Inc. – Electric Division ("UGI Electric").[1]

10. UGI Gas is a "natural gas distribution company" and a "supplier of last resort" as defined in Sections 2202 and 2207 of the Code. 66 Pa. C.S. § 2202, 2207.

11. UGI Gas provides natural gas distribution service to approximately 386,000 customers throughout a service territory which includes all or portions of sixteen counties. A list of communities served by UGI Gas and a service territory map are attached as "Appendix B."

12. All of the annual reports, tariffs, certificates, applications, and other documents filed with the Commission by UGI Gas are made a part hereof by reference. An income statement and balance sheet for UGI Gas as of September 30, 2017 are attached as "Appendix C."

[1] UGI Electric is an "electric distribution company" and a "default service provider" as defined in Section 2803 of the Code. 66 Pa. C.S. § 2803.

13. Following the merger, current UGI Gas will become the UGI South rate district of the new, consolidated UGI Gas, and will continue to provide natural gas distribution service within its service area and apply its existing Commission-approved gas service tariff therein.

14. UGI Gas has paid all special and general assessments made pursuant to 66 Pa. C.S. § 510. Following the merger, UGI Utilities will be responsible for the payment of any and all lawful special and general assessments related to the operation of the UGI South rate district for purposes of 66 Pa. C.S. § 510.

B. UGI PENN NATURAL GAS, INC.

15. PNG is a corporation organized and existing under the laws of Commonwealth of Pennsylvania. PNG is a wholly-owned subsidiary of UGI Utilities.

16. PNG began its operations on August 24, 2006, following UGI Utilities' purchase from Southern Union Company of the Pennsylvania natural gas distribution company known as PG Energy Division of Southern Union Company, as authorized by a Commission Order entered on August 18, 2006, at Docket Nos. A-125146F5000 et al..

17. PNG is a "public utility," a "natural gas distribution company," and a "supplier of last resort" as defined in Sections 102, 2202, and 2207 of the Code. 66 Pa. C.S. §§ 102, 2202, 2207.

18. PNG provides natural gas distribution service to approximately 168,000 customers throughout its certificated service territory, which includes all or portions of thirteen counties. A list of communities served by PNG and a service territory map are attached as "Appendix D."

19. All of the annual reports, tariffs, certificates, applications, and other documents filed with the Commission by PNG are made a part hereof by reference. An income statement and balance sheet for PNG as of September 30, 2017 are attached as "Appendix E."

20. Following the merger, PNG will become a natural gas distribution service and rate district ("UGI North") of UGI Gas, and will continue to provide natural gas distribution service within the former PNG service territory through application of PNG's then existing tariff that UGI Gas will adopt and apply within the UGI North rate district.

21. PNG has paid all special and general assessments made against it pursuant to 66 Pa. C.S. § 510. Following the merger, UGI Utilities will be responsible for the payment of any and all lawful special and general assessments related to the operation of the UGI North rate district (formerly PNG) for purposes of 66 Pa. C.S. § 510.

C. UGI CENTRAL PENN GAS, INC.

22. CPG is a corporation organized and existing under the laws of the Commonwealth of Pennsylvania. CPG is a wholly-owned subsidiary of UGI Utilities.

23. CPG, formerly PPL Gas Utilities Corporation, was acquired by UGI Utilities effective October 1, 2008, as authorized by a Commission Order entered on August 21, 2008, at Docket Nos. A-2008-2034045 *et al.* Prior to that acquisition, PPL Gas itself was the result of several mergers and acquisitions authorized by the PUC. *See, e.g., Joint application of PPL Gas Utilities Corp., North Penn Gas Company, and PFG Gas, Inc.*, Docket Nos. A-125127, et al., 2004 Pa. PUC LEXIS 757 (Order entered July 12, 2004); *Application of Allied Gas Company et al.*, Docket No. A-120650F002 (order approving merger and restructuring entered January 27, 1995).

24. CPG is a "public utility," a "natural gas distribution company," and a "supplier of last resort" as defined in Sections 102, 2202, and 2207 of the Code. 66 Pa. C.S. §§ 102, 2202, 2207.

25. CPG provides natural gas distribution service to approximately 85,000 customers throughout its certificated service territory, which includes all or portions of thirty-six counties. A list of communities served by CPG and a service territory map are attached as "Appendix F."

26. All of the annual reports, tariffs, certificates, applications, and other documents filed with the Commission by CPG are made a part hereof by reference. An income statement and balance sheet for CPG as of September 30, 2017 are attached as "Appendix G."

27. Following the merger, CPG will become a natural gas distribution service and rate district ("UGI Central") of UGI Gas, which will continue to provide natural gas distribution service within the former CPG service territory through application of CPG's then existing tariff that UGI Gas shall adopt and apply within the UGI Central rate district.

28. CPG has paid all special and general assessments made against it pursuant to 66 Pa. C.S. § 510. Following the merger, UGI Utilities will be responsible for the payment of any and all lawful special and general assessments related to the operation of the UGI Central rate district (formerly CPG) for purposes of 66 Pa. C.S. § 510.

D. UGI CORPORATION

29. UGI Corporation is a corporation organized and existing under the laws of the Commonwealth of Pennsylvania.

30. Headquartered in King of Prussia, Pennsylvania, UGI Corporation is a holding company that, through its subsidiaries, distributes, stores, transports and markets energy products and related services, both domestically and internationally.

31. Attached as "Appendix H" is an organizational chart showing UGI Corporation and its relevant domestic subsidiaries as of February 5, 2018.

III. DESCRIPTION OF THE PROPOSED TRANSACTION

32. Through this Proposed Transaction, the Applicants propose, through a one-step merger, to merge PNG and CPG with and into UGI Utilities, with UGI Utilities being the surviving entity. Upon closing, all of the assets of PNG and CPG will be owned by UGI Utilities, and the UGI Gas Division of UGI Utilities will have three rate districts: UGI South (formerly UGI Gas), UGI North (formerly PNG) and UGI Central (formerly CPG). Because UGI CPG and UGI PNG will be merged into UGI Utilities, with UGI Utilities being the surviving entity, UGI Utilities will therefore acquire all the service rights and certificates of public convenience of UGI CPG and UGI PNG and ownership interests in UGI CPG's and UGI PNG's property.

33. Therefore, UGI Utilities seeks to amend its certificate of public convenience issued at Docket No. A-123100 to include the service territories of UGI CPG and UGI PNG. Relatedly, UGI CPG requests to abandon its certificates of public convenience issued at: Docket Nos. A-125127, et al. (wherein the PPL Gas territory was established as the result of several mergers); Docket No. A-2008-2034045 (wherein UGI CPG acquired all PPL Gas stock and initiated service in its service territory); Docket Nos. A-2010-2202545 et al. (wherein UGI CPG was authorized to provide natural gas service in additional portions of Northumberland, Lycoming and Luzerne Counties); and Docket No. A-2013-2397685 (wherein UGI CPG was authorized to provide natural gas service in Wyoming Borough, Luzerne County, Pennsylvania). UGI PNG also requests to abandon its certificates of public convenience issued at: Docket No. A-125146F5000 (wherein UGI PNG was authorized to provide natural gas service); Docket No. A-125146F0002 (wherein UGI PNG was authorized to provide natural gas service in Lehman Township, Pike County, Pennsylvania); Docket Nos. A-2010-2202545 et al. (wherein UGI CPG was authorized to provide natural gas service in additional portions of Clinton, Union and

Luzerne Counties); Docket No. A-2014-2408732 (wherein UGI PNG was authorized to provide natural gas service in Canaan Township, Wayne County, Pennsylvania); and Docket No. A-2017-2631919 (wherein UGI PNG was authorized to provide natural gas service in Waymart Borough, Wayne County, Pennsylvania).

34. The proposed transaction will be effectuated pursuant to an Agreement and Plan of Merger, attached hereto as "Appendix A" hereto.

35. A map of the combined service territory with each of the separate rate districts is provided as "Appendix I."

36. Attached as "Appendix J" is a *pro forma* organizational chart showing UGI Corporation's principal subsidiaries following the closing of the Proposed Transaction.

37. Attached as "Appendix K" are a *pro forma* income statement and balance sheet for the combined companies following completion of the merger.

IV. POST-MERGER OPERATION AND RATES

38. As noted above, upon Commission approval of this application and the completion of the merger, UGI Gas, PNG, and CPG will become separate rate districts of UGI Gas.[2]

39. UGI Utilities will seamlessly continue to provide natural gas distribution service and supplier coordination services to existing and new customers and natural gas suppliers within the former service territories of UGI Gas, PNG, and CPG through the application of the then existing tariffs, which UGI Utilities shall adopt and apply within the corresponding rate districts.

[2] Following the merger, UGI Electric will continue to operate as a separate division of UGI Utilities with its own tariff and will separately continue to comply with all Commission regulations.

40. Following the closing of the merger, UGI Utilities will, pending the Commission's approval of further consolidation in future proceedings, maintain and, as appropriate, separately file the following for the UGI South, UGI North, and UGI Central service and rate districts, such as:

a. Purchased gas cost portfolios and rates;

b. Energy Efficiency and Conservation ("EE&C") programs[3];

c. Universal Service Program Budgets and targets;

d. Growth Extension Tariff ("GET Gas") programs and reporting obligations;

e. Lost and Unaccounted For studies and reports;

f. Purchase of Receivable Program (UGI South);

g. Choice program rules and requirements;

h. Long-Term Infrastructure Programs ("LTIIP");

i. Distribution System Improvement Charges ("DSIC"), with the only change in operation being that UGI Gas will prospectively determine if DSIC re-sets under 66 Pa. C.S. §1358(b)(3) are required by reference to its consolidated quarterly financial reports; and

j. State Tax Adjustment Surcharge rates.

41. Following Commission approval and the completion of the merger, UGI Utilities shall submit financial reports required under Chapter 71 of the Commission's regulations, annual reports required under 52 Pa. Code §59.48, and other regulatory reports on a consolidated basis.

42. In the future, UGI Gas, PNG, and CPG intend to submit revised LTIIPs for Commission approval. This filing will include separate revised LTIIPs for UGI Gas, CPG, and PNG as well as a *pro forma* consolidated LTIIP for implementation beginning in January 1, 2019.

[3] UGI North and UGI South only, as UGI Central does not yet have an approved EE&C program.

43. If this Application is not approved by January 1, 2019, UGI Gas, PNG and CPG shall continue to operate under separate revised LTIIPs, but switch to a consolidated LTIIP at such time as this Application is approved and the merger is completed.

44. As explained in Section VI below, merging the operations and management of UGI Gas, PNG, and CPG will improve the overall management and administrative efficiency of the merged utilities over time, consistent with the Companies' ongoing efforts to streamline, simplify and modernize its management structure and operations. While UGI Utilities, CPG, and PNG have achieved substantial inter-company efficiencies since coming under common management and control, additional operational efficiencies are expected to be realized through the Proposed Transaction by the elimination, over time, of inefficiencies related to separate administration and operations required while the individual companies remained separate corporate entities.

V. LEGAL STANDARDS AND APPROVALS REQUESTED

A. SECTIONS 1102(a) AND 1103

45. Section 1102(a)(3) of the Code, 66 Pa. C.S. §1102(a)(3), provides, in pertinent part, that the Commission's prior approval, evidenced by a certificate of public convenience, is required;

> For any public utility or an affiliated interest of a public utility . . . to acquire from, or to transfer to, any person or corporation . . . by any method or devise whatsoever, including the sale or transfer of stock and including a consolidation, merger, sale or lease, the title to, or the possession or use of, any tangible or intangible property used or useful in the public service.

46. To provide direction for future applicants, the Commission issued a Statement of Policy on October 22, 1994, to establish standards regarding the circumstances under which a

transfer of voting interest constitutes a change in *de facto* control of the utility, which provides, in pertinent part, as follows:

> (1) A transaction or series of transactions resulting in a new controlling interest is jurisdictional when the transaction or transactions result in a different entity becoming the beneficial holder of the largest voting interest in the utility or parent, regardless of the tier. A transaction or series of transactions resulting in the elimination of a controlling interest is jurisdictional when the transaction or transactions result in the dissipation of the largest voting interest in the utility or parent, regardless of the tier.
>
> (2) For purposes of this section, a controlling interest is an interest, held by a person or group acting in concert, which enables the beneficial holders to control at least 20% of the voting interest in the utility or its parent, regardless of the remoteness of the transaction. In determining whether a controlling interest is present, voting power arising from a contingent right shall be disregarded.

52 Pa. Code § 69.901. Thus, Commission approval is required for any transaction that creates or eliminates a controlling interest and results in a different entity becoming the largest voting interest in a public utility company. The determination of the interests involved in a transaction considers all tiers of interest in the utility or parent of the utility and, thus, both direct and indirect ownership interests in a utility are considered under the Commission's Policy Statement.

47. There is no ultimate change in control resulting from the Proposed Transaction. UGI Utilities will continue to own all of the interests in all of the involved entities both before and after the restructuring, albeit now as part of a consolidated UGI Utilities rather than separate, wholly-owned subsidiaries of UGI Utilities. Further, ownership of UGI Utilities is wholly unaffected, as UGI Corporation will remain the owner of 100 percent of the common stock of UGI Utilities. Nevertheless, the Commission has concluded that internal reorganizations such as the one here are subject to review and approval under Section 1102(a)(3) of the Code. Specifically, the Commission stated:

> Internal transactions usually involve corporate reorganizations which can have fundamental effect on the management and operations of a utility. Accordingly, we believe that the legislature intended that these transactions be subject to regulatory review under Section 1102(a)(3) to the extent they constitute a transfer of de facto control as defined by the policy statement heretofore issued. (emphasis added)

Policy Statement Regarding Interpretation of 66 Pa.C.S. § 1102(a)(3), Docket No. M-930490, 1994 Pa. PUC LEXIS 56 at *11 (Order entered September 13, 1994) (emphasis added).

48. Thus, according to the Commission's Policy Statement, the Proposed Transaction is subject to the provision of Section 1102(a)(3) because it will ultimately create new controlling interests in PNG and CPG.

49. Further, the Proposed Transaction will merge PNG and CPG with UGI Gas, which are all natural gas distribution companies certificated by the Commission. Under Section 1102(a)(3), a certificate of public convenience is required to merge or consolidate these natural gas distribution companies. In addition, as explained above, UGI Utilities will acquire all the service rights and certificates of public convenience of UGI CPG and UGI PNG and ownership interests in UGI CPG's and UGI PNG's property. As such, the Proposed Transaction is also subject to the provisions of Section 1102(a)(1) and (2) of the Code, 66 Pa. C.S. § 1102(a)(1) and (2), because it will result in the initiation of natural gas distribution service by UGI Utilities in the service territories of UGI CPG and UGI PNG and the simultaneous abandonment of natural gas distribution service by UGI CPG and UGI PNG.

50. Section 1103 of the Public Utility Code sets forth the procedure to obtain certificates of public convenience. Under Sections 1102 and 1103 of the Code, the Applicants must demonstrate that the party to whom the assets and service obligations are being transferred is legally, technically, and financially fit. *See Seaboard Tank Lines v. Pa. Pub. Util. Comm'n*, 502 A.2d 762, 764 (Pa. Cmwlth. 1985); *Warminster Township Mun. Auth. v. Pa. Pub. Util.*

Comm'n, 138 A.2d 240, 243 (Pa. Super. 1958). However, unlike a new utility seeking Commission certification for the first time, UGI Utilities is presumed to be technically, financially, and legally fit to provide natural gas services by virtue of its long-standing existence and service as a regulated and certificated natural gas utility in Pennsylvania. *South Hills Movers, Inc. v. Pa. Pub. Util. Comm'n*, 601 A.2d 1308 (Pa. Cmwlth. 1992); *Re Blue Bird Coach Lines, Inc.*, 72 PA PUC 262, 285-286 (1990); *Re V.I.P. Travel Services, Inc.*, 56 PA PUC 625, 631 (1982).

51. The Commission may issue a certificate of public convenience upon a finding that "the granting of such certificate is necessary or proper for the service, accommodation, convenience, or safety of the public." 66 Pa. C.S. § 1103(a).

52. This standard requires the Commission to find that the Proposed Transaction will "affirmatively promote the service, accommodation, convenience, or safety of the public in some substantial way." *City of York v. Pa. Pub. Util. Comm'n*, 295 A.2d 825, 828 (Pa. 1972). The "substantial public interest" standard is satisfied by a simple preponderance of the evidence of benefits, and such burden can be met by showing a likelihood or probability of public benefits that need not be quantified or guaranteed. *Popowsky v. Pa. Pub. Util. Comm'n*, 594 Pa. 583, 611, 937 A.2d 1040, 1057 (Pa. 2007). Further, the substantial public benefit test does not require that every customer receive a benefit from the Proposed Transaction. *Popowsky*, 937 A.2d at 1061. Moreover, in other cases, the Commission has determined that internal reorganizations resulting in no change in service or rates to customers can meet the required statutory standard. *See, e.g.*, *Joint Application of PaeTec Communications, Inc. and Parklink Communications Systems, Inc.*, Docket Nos. A-310743 F0005 and A-310815 F0002 (Order entered April 17, 2000) ("the proposed merger will be completely seamless to ... existing customers in terms of

the service they will receive ... the proposed internal reorganization will have no adverse effect on [the] current provision of intrastate telecommunications services ... These advantages ensure the proposed merger satisfies the standards set by the *City of York v. Pa.P.U.C.* ...[and] that the merger provides an affirmative public benefit."); *Joint Application of Pittsburgh Thermal et al.*, Docket Nos. A-130001 and A-130000 F0002 (Order entered September 1, 2000).

53. The substantial affirmative benefits of the Proposed Transaction are explained in Section VI of this Application.

B. CHAPTER 21

54. Under Section 2102 of the Code, Commission approval is required for any affiliated interest contract before it can become effective. 66 Pa. C.S. § 2102(a). Section 2101(a) defines an "affiliated interest" to include the following: "(1) Every corporation and person owning or holding directly or indirectly 5% or more of the voting securities of such public utility; and (2) Every corporation and person in any chain of successive ownership of 5% or more of voting securities." 66 Pa. C.S. § 2101(a)(1)(2).

55. Under Section 2103, the Commission has continuing supervision and jurisdiction over affiliated interest contracts, including the "modification or amendment" of such contracts or agreements. 66 Pa. C.S. § 2103.

56. Sections 2102(b) and (c) provide the standard for Commission review of an affiliate interest agreement:

> (b) Filing and Action on Contract.... The commission shall approve such contract or arrangement made or entered into after the effective date of this section only if it shall clearly appear and be established upon investigation that it is reasonable and consistent with the public interest. If at the end of 30 days after the filing of a contract or arrangement, no order of rejection has been entered, such contract or arrangement, whether written or unwritten, shall be deemed, in fact and law, to have been approved. The commission may, by written order, giving reasons therefor,

> extend the 30-day consideration period. No such contract or arrangement shall receive the commission's approval unless satisfactory proof is submitted to the commission of the cost to the affiliated interest of rendering the services or of furnishing the property or service described herein to the public utility....
>
> (c) Disallowances of Excessive Amounts.... If the commission shall determine that the amounts paid or payable under a contract or arrangement filed in accordance with this section are in excess of the reasonable price for furnishing the services provided for in the contract, or that such services are not reasonably necessary and proper, it shall disallow such amounts, insofar as found excessive, in any proceeding involving the rates or practices of the public utility. In any proceeding involving such amounts, the burden of proof to show that such amounts are not in excess of the reasonable price for furnishing such services, and that such services are reasonable and proper, shall be on the public utility.

66 Pa. C.S. § 2102(b) and (c).

57. The Agreement and Plan of Merger described above constitutes an affiliated interest agreement under Chapter 21 of the Code. Pursuant to Section 2102(a), Commission approval of the Agreement and Plan of Merger is required before that agreement can become effective.

58. As explained above, the Applicants seek Commission approval to merge PNG and CPG with and into UGI Utilities and, upon closing, to operate UGI Gas, PNG, and CPG as separate service and rate districts. The consolidated utility will continue to receive the same administrative and corporate services from UGI Corporation and its subsidiaries currently provided under existing affiliated interest agreements, which will remain in place unchanged following the closing of the Proposed Transaction. However, because the utility will be consolidated into separate service and rate districts of the UGI Gas division of UGI Utilities, the rate districts will no longer be separate companies and will no longer themselves be "affiliates" as defined in Chapter 21 of the Code. Therefore, these existing agreements will no longer be affiliated interest agreements after the merger and will terminate by operation of law.

59. The requirements of Section 2102 are addressed in Section VIII of this Application.

C. SECTIONS 2210(a)

60. Section 2210(a) of the Code provides as follows:

> (a) General rule. --In the exercise of authority the commission otherwise may have to approve mergers or consolidations involving natural gas distribution companies or natural gas suppliers or the acquisition or disposition of assets or securities of natural gas distribution companies or natural gas suppliers, the commission shall consider:
>
>> (1) Whether the proposed merger, consolidation, acquisition or disposition is likely to result in anticompetitive or discriminatory conduct, including the unlawful exercise of market power, which will prevent retail gas customers from obtaining the benefits of a properly functioning and effectively competitive retail natural gas market.
>>
>> (2) The effect of the proposed merger, consolidation, acquisition or disposition on the employees of the natural gas distribution company and on any authorized collective bargaining agent representing those employees.

66 Pa. C.S. § 2210(a).

61. The Proposed Transaction is subject to the provision of Section 2210 because it will merge PNG, and CPG into UGI Utilities, which are natural gas distribution companies certificated by the Commission.

62. Under Section 2210(a)(1) of the Code, the Commission is required to consider whether a proposed merger or consolidation of a natural gas distribution company is likely to result in anticompetitive or discriminatory conduct. 66 Pa. C.S. § 2210(a). Additionally, the Commission is required to consider the impact that a proposed merger or consolidation of a

natural gas distribution company may have on the employees of the natural gas distribution company. 66 Pa. C.S. § 2210(a)(2).

63. The requirements of Section 2210(a) are addressed in Section VII of this Application.

D. BURDEN OF PROOF

64. Section 332(a) of the Code provides that the party seeking a rule or order from the Commission has the burden of proof in that proceeding. 66 Pa. C.S. § 332(a). It is axiomatic that "[a] litigant's burden of proof before administrative tribunals as well as before most civil proceedings is satisfied by establishing a preponderance of evidence which is substantial and legally credible." *Samuel J. Lansberry, Inc. v. Pa. Pub. Util. Comm'n*, 578 A.2d 600, 602 (Pa. Cmwlth. 1990). The preponderance of evidence standard requires proof by a greater weight of the evidence. *Cmwlth. v. Williams*, 732 A.2d 1167 (Pa. 1999). Consequently, as the parties seeking relief, the Applicants bear the burden of proving that the Proposed Transaction satisfies the requirements of Sections 1102, 1103, 2102, and 2210.

65. Additionally, any finding of fact necessary to support an adjudication of the Commission must be based upon substantial evidence. *Met-Ed Indus. Users Group v. Pa. Pub. Util. Comm'n*, 960 A.2d 189, 193 n.2 (Pa. Cmwlth. 2008) (citing 2 Pa. C.S. § 704). Substantial evidence is such relevant evidence as a reasonable mind might accept as adequate to support a conclusion. *Borough of E. McKeesport v. Special/Temporary Civil Serv. Comm'n*, 942 A.2d 274, 281 (Pa. Cmwlth. 2008). The "presence of conflicting evidence in the record does not mean that substantial evidence is lacking." *Allied Mechanical and Elec., Inc. v. Pa. Prevailing Wage Appeals Bd.*, 923 A.2d 1220, 1228 (Pa. Cmwlth. 2007) (citation omitted).

VI. THE PROPOSED TRANSACTION IS IN THE PUBLIC INTEREST AND SHOULD BE APPROVED

66. As set forth below, the Proposed Transaction will provide substantial affirmative public benefits and, therefore, should be approved.

67. Several benefits will accrue from the merger for the long-term benefit of the consolidated company's customers, including but not limited to: (a) increased administrative efficiency; (b) increased operational efficiency; (c) increased capital efficiency; and (d) increased regulatory efficiency. The proposed merger is a critical first step in order to achieve and realize these long-term future benefits.

68. UGI Gas, PNG, and CPG have been operating under one corporate umbrella since 2006 for PNG and 2008 for CPG, when PNG and CPG were acquired by UGI Utilities. During this time, major strides have been taken to combine the operations and administration of these separate natural gas utilities. These strides have included consolidation of all administrative and general, and most non-field and field management and executive functions for the three businesses into UGI Utilities. The proposed merger of these three utility companies into one company is fully consistent with the long-term goal of single company operation and the efficiencies that may be obtained therefrom. The proposed merger of UGI Gas, PNG, and CPG into one natural gas distribution company will produce its own efficiencies, as explained below, and will more formally reflect and incorporate the ongoing actual operations of these companies.

A. INCREASED ADMINISTRATIVE EFFICIENCY

69. Increased administrative efficiency is perhaps the most obvious of the benefits to consolidating the three utility companies into one company. These benefits will inure to the areas of accounting, cash management, procurement, and regulatory activities.

70. As separate utility companies, UGI Gas, CPG, and PNG are each required to: maintain separate books of account, income statements, and balance sheets; record separate transactions where each business renders service to the other and where each business deals with the same vendor for the same types of goods and services; and make numerous separate tax and regulatory filings. By merging the three entities into one consolidated UGI Gas division of UGI Utilities, Inc., only one set of books of accounts, income statements, and balance sheets will be needed, all of the current inter-company transactions among the gas businesses will be eliminated, layers of transactions between each of the three gas utilities with the same vendors will be reduced to single sets of transactions with UGI Utilities alone, and layers of regulatory and tax filings will be eliminated.

71. As discussed above, while some costs recovered through non-base rate cost recovery mechanisms (*e.g.*, DSIC-eligible plant, purchased gas costs, Universal Service Programs, EE&C, etc.) will initially need to be tracked by service and rate district, the efforts to do so are small compared to the time savings obtainable by the merger and would be eliminated through a uniform rate structure that the UGI Utilities would propose and the Commission would review in the future.

72. The proposed merger will result in increased administrative efficiency, which reduces the amount of time and effort spent by employees who work in the areas of accounting, cash management, procurement, and regulatory activities. This reduction in time allows the Company to focus these employees on improving the quality of the tasks being performed, work on other multi-year corporate improvement programs such as the Company's information technology modernization program or planning its longer-term infrastructure betterment

program, or to consolidate functions into a smaller group of employees than would be necessary otherwise. These efforts should result in a higher quality of service for customers.

73. Increased administrative efficiency will eventually reduce the manpower needed to perform each task in the areas of accounting, cash management, procurement, and regulatory activities. However, due to the increased requirements of the business over the next several years in areas such as information technology and gas distribution system improvements, it is not anticipated that any employees will be terminated as a result of the merger. The efficiencies gained from the merger will forestall, to a degree, the need to supplement existing workforce with new hires to handle that increased workload. All else being equal, these avoided incremental costs will result in a reduced magnitude of future rate increases.

B. INCREASED OPERATIONAL EFFICIENCY

74. The Proposed Transaction will also help the Company achieve its UGI-1 Initiative. UGI-1 is a company-wide improvement initiative focusing on people, tools and processes. The goal of UGI-1 is to create uniform practices and procedures across the UGI organization through technological and organizational improvement, which will then allow future business improvements to be developed more promptly and rolled-out more efficiently and effectively. While much has already been accomplished to create efficiencies related to people, tools and processes across the UGI organization to-date, the proposed merger is an important step in achieving the ultimate goals of the UGI-1 Initiative.

75. The proposed merger also opens the potential for increased coordination of the three gas distribution systems so that they act as one utility system rather than three distinct systems.

76. Examples of increased operational efficiency include the potential development of projects to implement more cost-effective system reinforcement projects where the existing

service territories of the three companies are close to one another but have not yet been interconnected.

77. Additionally, combining UGI Gas, CPG, and PNG will simplify future facility management system configurations as the operating division will be organized under a single corporate structure.

C. INCREASED CAPITAL EFFICIENCY

78. Currently, UGI Utilities provides for the cash requirements of UGI Utilities, CPG, and PNG. Cash requirements of CPG and PNG are, in part, met from funds loaned by UGI Utilities out of its cash reserves that are augmented by debt issued by UGI Utilities. These debt and financing arrangements have been approved by the Commission through the issuance of securities certificates and affiliate interest arrangements.

79. Post-merger, these arrangements will be eliminated and UGI Utilities will no longer need to address the capital requirements of the separate subsidiaries, and all capital requirements will be blended into one tier at UGI Utilities, thereby eliminating the need to service the subsidiary loan requirements.

D. REGULATORY EFFICIENCY

80. UGI Gas, CPG, and PNG currently interface with the Commission in triplicate across a broad spectrum of issues and matters. This includes a substantial number of annual, quarterly, and other periodic filings submitted to the Commission, including but not limited to: Annual Reports filed pursuant to 52 Pa. Code §59.48; Chapter 71 earnings reports; Chapter 73 depreciation reports; Purchased Gas Cost filings; and DSIC filings; LTIIP filings; and Asset Optimization Plan filings.

81. Currently, each report and filing is separately made for UGI Gas, PNG and CPG. The need for multiple submissions places resource burdens on the three companies. It also

places burdens on several departments within the Commission staff to process, act upon, and to decide issues presented where formal action is required. These burdens are also realized by the statutory public parties.

82. The proposed merger is the first step to eliminate the need for multiple filings and reports to the Commission. Merging UGI Gas, PNG, and CPG into one gas utility will reduce the number of filings and reports required to be submitted, and reduce the amount of effort the Commission and public parties will need to expend to provide regulatory oversight of UGI Utility's natural gas distribution business.

83. As discussed above, while some filings (*e.g.*, DSIC-eligible plant, purchased gas costs, Universal Service Programs, EE&C, etc.) will initially need to be submitted separately for each rate district, the efforts to do so are small compared to the time savings obtainable by the merger and would be eliminated through future consolidated filings that the UGI Utilities would propose and the Commission would review in the future.

84. The proposed merger is the first step to improved regulatory efficiency that will benefit the Commission, UGI Utilities, and the collective customers it will serve.

VII. EFFECT OF PROPOSED TRANSACTION ON RETAIL COMPETITION AND EMPLOYEES

85. The Proposed Transaction will not result in anti-competitive or discriminatory conduct in the retail market for natural gas in Pennsylvania, nor will it have any adverse effect on the retail natural gas market in Pennsylvania.

86. As discussed above, all rates, terms and conditions that have an impact on retail competition in the service territories will remain unchanged in the initial tariffs through the implementation of the separate service and rate districts.

87. Under Section 2210(a)(2) of the Code, the Commission is also required to consider the impact that a proposed merger or consolidation of a natural gas distribution company may have on the employees of the natural gas distribution company. 66 Pa. C.S. § 2210(a)(2).

88. The proposed transaction will not have a significant impact on employees. Employees of CPG and PNG will become employees of UGI Utilities, but will not see any change in their salaries or employee benefit plans. Administrative personnel who may see some of their tasks streamlined as a result of the reduced number of businesses will be refocused to tasks which will enhance the quality and efficiency of service.

89. After the merger, UGI Utilities will continue to honor the requirements of all union collective bargaining agreements, and treat all union employees in accordance with the National Labor Relations Act and other legal requirements.

VIII. AFFILIATED INTEREST AGREEMENTS

90. The Agreement and Plan of Merger attached as Appendix A to this Application constitutes an affiliated interest agreement under Chapter 21 of the Code. Pursuant to Section 2102(a), Commission approval of the Agreement and Plan of Merger is required before that agreement can become effective. The Agreement and Plan of Merger was adopted and executed by each of the Applicants in accordance with the Pennsylvania Entity Transactions Law on February 27, 2018. As discussed above, the Agreement and Plan of Merger provides substantial benefits to each of the Applicants and their ratepayers by increasing the administrative, operational, capital and regulatory efficiency of the Applicants. *See* Section VI *supra*. Therefore, the Agreement and Plan of Merger is reasonable and in the public interest and, therefore, should be approved under Section 2102 of the Code. 66 Pa. C.S. § 2102.

91. When UGI Corporation was formed in the early 1990s as the parent company of UGI Utilities, UGI Utilities filed for and obtained approval of an Administrative Service Affiliated Interest Arrangement, which was approved in an order entered on May 21, 1992 at Docket No. G-00920296. The Administrative Service Affiliated Interest Arrangement covered the terms by which UGI Utilities could provide administrative services to or receive services from the UGI Corporation holding company "and its unregulated subsidiaries." To this day, the Administrative Service Affiliated Interest Arrangement covers most of the interactions between the Applicants, the holding company, and its subsidiaries.

92. As the business evolved new interactions between UGI Utilities and its affiliates began to arise that were not covered by the 1992 Administrative Service Affiliated Interest Arrangement. Specifically, UGI Utilities sought and obtained approval of the following affiliated interest agreements: Insurance Services (Opinion and Order entered June 10, 1993 at Docket No. G-00930344); Gas Sales (Opinion and Order entered August 28, 1997 at Docket No. G-00970552); and Engineering Services (Secretarial letter dated July 1, 2003 at Docket No. G-00031008). These Commission-approved affiliated interest agreements provided for additional administrative and corporate services among the Applicants, the holding company, and its subsidiaries that were not previously addressed by 1992 Administrative Service Affiliated Interest Arrangement.

93. When UGI Utilities acquired the gas distribution assets now held by PNG from PG Energy Division of Southern Union Company, it also filed for and obtained approval to extend the existing affiliated interest agreements to PNG upon closing of the acquisition (Order entered on September 15, 2006 at Docket Nos. G-00061179, G-00061180, G-00061181 and G-00061182). Subsequently, PNG sought additional affiliated interest agreement approval for gas

supply transactions with affiliates (approved by way of a January 10, 2007 Secretarial Letter at Docket No. G-00061210) and for shared office space (Secretarial letter issued May 26, 2008 at Docket No. G-2007-2005763).

94. When UGI Utilities acquired CPG, formerly PPL Gas Utilities Corporation, it again received approval to extend the existing affiliated interest agreements that had been granted to PNG to CPG, and also asked for affiliated interest agreement approval for the sharing of CPG real estate (Opinion and Order entered August 21, 2008 at Docket Nos. A-2008-2034047; G-2008-2034115 and G-2008-2034132).

95. More recently, in an Order entered on June 14, 2017 at Docket Nos A-2016-2540640; G-2016-2540640; A-2016-2539979 and G-2016-2539961, the Commission approved, amongst other things, certain affiliated interest arrangements related to gas control services between UGI Gas, PNG and CPG on the one hand, and UGI Central Gas Control, LLC on the other hand.

96. Upon closing of the Proposed Transaction, PNG and CPG will be merged with and into UGI Utilities, and consolidated into the UGI Gas division. The consolidated utilities will continue to receive the same administrative and corporate services currently provided under existing affiliated interest agreements, which will remain in place unchanged following the closing of the Proposed Transaction.

97. Because the utilities will be merged, they will no longer be "affiliates" as defined in Chapter 21 of the Code. Therefore, these existing agreements will no longer be affiliated interest agreements after the merger and will no longer be subject to Chapter 21 of the Code, the Applicants do not believe that any Commission approval is required to terminate any existing

agreements by and between the Applicants. Nevertheless, to the extent that the Commission's approval is required, the Applicants request such approval.

98. With respect to the existing affiliated interest agreements between any of the Applicants and UGI Corporation or its subsidiaries, these agreements will remain in place and unchanged following the closing of the Proposed Transaction. Because these agreements will continue without any modification following the Proposed Transaction, the Applicants do not believe that any Commission approval is required to continue the existing affiliated interest agreements. Nevertheless, to the extent that the Commission's approval is required, the Applicants request such approval.

IX. OTHER REGULATORY APPROVALS

99. The Applications plan to complete the Proposed Transaction as soon as possible after all regulatory approvals have been obtained.

100. In addition to approval from this Commission, the Proposed Transaction also requires approval from the Maryland Public Service Commission ("MD PSC") and the Federal Energy Regulatory Commission ("FERC").

101. Authorization by the MD PSC is needed as a result of CPG's operation in Maryland where it serves approximately 520 customers in and around Emmitsburg, MD subject to MD PSC regulation.

102. FERC approval is necessary for UGI to assume the service territory designation that CPG currently holds under Section 7(f) of the Natural Gas Act ("NGA"), in connection with a transmission line it owns and operates across state lines between Columbia Gas Transmission in Pennsylvania and its Maryland operations.

103. FERC approval also may be necessary under Section 7(c) of the NGA, and required approvals will be sought to amend certain authorized service agreements to replace PNG and CPG in favor of UGI Utilities as the shipper.

104. FERC approval will also be required to transfer the approved operating conditions and rate authorizations currently held by PNG under its Order No. 63 certificate to UGI Utilities.

X. ADDITIONAL SUPPORTING DATA

105. The following Appendices, containing additional information in support of this Application, are attached hereto:

- Appendix A - The Agreement and Plan of Merger
- Appendix B – Map of UGI Gas Service Territory and List of Communities Served
- Appendix C – Income Statement and Balance Sheet for UGI Gas as of September 30, 2017
- Appendix D – Map of PNG Service Territory and List of Communities Served
- Appendix E – Income Statement and Balance Sheet for PNG as of September 30, 2017
- Appendix F – Map of CPG Service Territory and List of Communities Served
- Appendix G – Income Statement and Balance Sheet for CPG as of September 30, 2017
- Appendix H - Pre-Merger Corporate Organization Chart
- Appendix I – Map of Merged Service Territory
- Appendix J – *Pro Forma* Post-Merger Corporate Organization Chart
- Appendix K – *Pro Forma* Income Statement and Balance Sheet for Merged Companies

106. All annual reports, tariffs, certificates of public convenience, applications, securities certificates, and similar documents of the Applicants are made a part hereof by reference.

XI. NOTICE

107. A copy of this Application is being served on the Commission's Bureau of Investigation and Enforcement, the Office of Consumer Advocate, and the Office of Small Business Advocate.

108. The Applicants request that the Commission publish notice of this Application in the Pennsylvania Bulletin pursuant to 52 Pa. Code § 5.14(a).

109. Pursuant to 52 Pa. Code § 5.14(b), the Applicants will provide additional notice or service of this Application as directed by the Commission's Secretary Bureau.

XII. CONCLUSION

WHEREFORE, for all the foregoing reasons, the Applicants respectfully request that the Pennsylvania Public Utility Commission grant all necessary and customary approvals and issue the necessary certificates of public convenience under the Public Utility Code to: (1) approve an Agreement and Plan of Merger; (2) merge PNG and CPG with and into UGI Utilities; (3) the initiation by UGI Utilities, Inc. of natural gas service in all territory in this Commonwealth where UGI Penn Natural Gas, Inc. and UGI Central Penn Gas do or may provide natural gas service; (4) the abandonment by UGI Penn Natural Gas, Inc. of all natural gas service in this Commonwealth; (5) the abandonment by UGI Central Penn Gas, Inc. of all natural gas service in this Commonwealth; (6) permit UGI Utilities to adopt PNG's and CPG's existing tariffs and apply the existing tariffs within the new service and rate districts of UGI Utilities corresponding to the existing PNG and CPG service territories as UGI North and UGI Central, respectively; (7) the adoption by UGI Utilities of its Existing Tariff to be applied to a new UGI South Service and Rate District; (8) to the extent necessary, approve associated affiliated interest agreements; and (9) grant any other approvals or certificates appropriate, customary, or necessary under the Public Utility Code to carry out the transactions contemplated in this Application in a lawful manner.

Respectfully submitted,

David B. MacGregor (GPL)

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Date: March 8, 2018

Attorneys for Applicants UGI Utilities, Inc.,
UGI Penn Natural Gas, Inc., and
UGI Central Penn Gas, Inc.

Appendix A

The Agreement and Plan of Merger

AGREEMENT AND PLAN OF MERGER

OF

UGI PENN NATURAL GAS, INC.
(a Pennsylvania corporation)

AND

UGI CENTRAL PENN GAS, INC.
(a Pennsylvania corporation)

WITH AND INTO

UGI UTILITIES, INC.
(a Pennsylvania corporation)

This AGREEMENT AND PLAN OF MERGER (the "Agreement and Plan of Merger"), dated as of February 27, 2018, is by and among UGI Penn Natural Gas, Inc., a corporation organized and existing under the laws of the Commonwealth of Pennsylvania ("UGI PNG"), UGI Central Penn Gas, Inc., a corporation organized and existing under the laws of the Commonwealth of Pennsylvania ("UGI CPG") and UGI Utilities, Inc., a corporation organized and existing under the laws of the Commonwealth of Pennsylvania ("UGI Utilities" or the "Surviving Corporation"), with reference to the following recitals:

A. UGI Utilities owns 100% of the issued and outstanding shares of each of UGI PNG and UGI CPG;

B. The board of directors of UGI Utilities has adopted resolutions approving this Agreement and Plan of Merger in accordance with the Pennsylvania Entity Transactions Law, as amended (the "PETL");

C. The approval of the boards of directors of UGI PNG and UGI CPG was not required in accordance with PETL §321(d)(3); and

D. The approval of the sole shareholder of UGI Utilities was not required in accordance with PETL §321(d)(1)(i).

NOW, THEREFORE, the parties hereto, in consideration of the mutual covenants herein contained and intending to be legally bound, agree as follows:

1. Parties to Merger. UGI PNG, UGI CPG and UGI Utilities (such corporate parties to the merger being hereinafter sometimes referred to as the "Constituent Corporations") shall effect a merger (the "Merger") in accordance with and subject to the terms and conditions of this Agreement and Plan of Merger.

2. Merger; Governing Law. At the Effective Time (as defined in Section 3 hereof), each of UGI PNG and UGI CPG shall be merged with and into UGI Utilities, and the separate existence of each of UGI PNG and UGI CPG shall cease. The Surviving Corporation shall continue to be governed by the laws of the Commonwealth of Pennsylvania.

3. Filing and Effective Time. The Statement of Merger to be filed with the Department of State of the Commonwealth of Pennsylvania, and such other documents and instruments as are required by, and complying in all respects with the PETL, shall be delivered to the appropriate state official for filing. The Merger shall become effective on the date and at the time specified in the Statement of Merger filed with the Department of State of the Commonwealth of Pennsylvania (the "Effective Time"), provided, however, that no such filing shall be made prior to receipt of any necessary approvals from the Pennsylvania Public Utility Commission, the Public Service Commission of Maryland and the Federal Energy Regulatory Commission. In the event any necessary approval is not issued to the satisfaction of UGI Utilities, this Agreement and Plan of Merger shall terminate, without liability of either party to the other.

4. Articles of Incorporation. At the Effective Time, the Articles of Incorporation of UGI Utilities shall be and thereafter remain the Articles of Incorporation of the Surviving Corporation, until amended in accordance with applicable law.

5. Bylaws. At the Effective Time, the Bylaws of UGI Utilities shall be and thereafter remain the Bylaws of the Surviving Corporation until altered, amended or repealed in the manner therein provided in accordance with the Articles of Incorporation and Bylaws of the Surviving Corporation and applicable law.

6. Directors and Officers. At the Effective Time, the directors and the officers of UGI Utilities shall be the directors and the officers of the Surviving Corporation; each such director and officer shall hold office until his or her resignation or removal, in accordance with the Articles of Incorporation and Bylaws of the Surviving Corporation and applicable law.

7. Effect of Merger. At the Effective Time, the Merger shall have the effect set forth in Section 336 of the PETL and elsewhere therein, except as otherwise expressly set forth in this Agreement and Plan of Merger. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time, all the properties, rights (including but not limited to rights as holders of any environmental covenants), privileges, powers and franchises of UGI PNG and UGI CPG, respectively, shall vest in the Surviving Corporation without reversion or impairment, and all debts, obligations, other liabilities and duties of UGI PNG and UGI CPG, respectively, shall become the debts, obligations, other liabilities and duties of the Surviving Corporation.

8. Further Assurances. If at any time the Surviving Corporation, or its successors or assigns, shall consider or be advised that any further assignments or assurances in law or any other acts are necessary or desirable to carry out the purposes of this Agreement and Plan of Merger, each of UGI PNG and UGI CPG and their proper officers and directors shall be deemed to have granted to the Surviving Corporation an irrevocable power of attorney to execute and deliver all such proper deeds, assignments and assurances in law and to do all acts necessary or proper to vest, perfect or confirm title to and possession of such rights, properties or assets in the Surviving Corporation and otherwise carry out the purposes of this Agreement and Plan of Merger, and the directors and officers of the Surviving Corporation are fully authorized in the name of UGI PNG and UGI CPG or otherwise to take any and all such action.

9. Capital Stock.

(a) At the Effective Time, each share of capital stock of UGI PNG issued and outstanding immediately prior to the Effective Time, by virtue of the Merger and without any action on the part of the holder thereof, shall be canceled and cease to exist.

(b) At the Effective Time, each share of capital stock of UGI CPG issued and outstanding immediately prior to the Effective Time, by virtue of the Merger and without any action on the part of the holder thereof, shall be canceled and cease to exist.

(c) At the Effective Time, each issued and outstanding share of capital stock of UGI Utilities shall continue to be issued and outstanding and shall represent shares of ownership of the Surviving Corporation.

10. Amendment or Termination. This Agreement and Plan of Merger may be amended or terminated at any time prior to the Effective Time by agreement of the Constituent Corporations.

11. Counterparts. This Agreement and Plan of Merger may be executed in counterparts each of which shall be deemed an original and all of which together shall be considered one and the same agreement. The parties agree that a facsimile or PDF document may be executed as an original.

[Signature page to follow]

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement and Plan of Merger as of the day and year first written above.

UGI PENN NATURAL GAS, INC.,
a Pennsylvania corporation

By: ________________________
Name: Monica M. Gaudiosi
Title: Vice President and General Counsel, Secretary

UGI CENTRAL PENN GAS, INC.,
a Pennsylvania corporation

By: ________________________
Name: Monica M. Gaudiosi
Title: Vice President and General Counsel, Secretary

UGI UTILITIES, INC.,
a Pennsylvania corporation

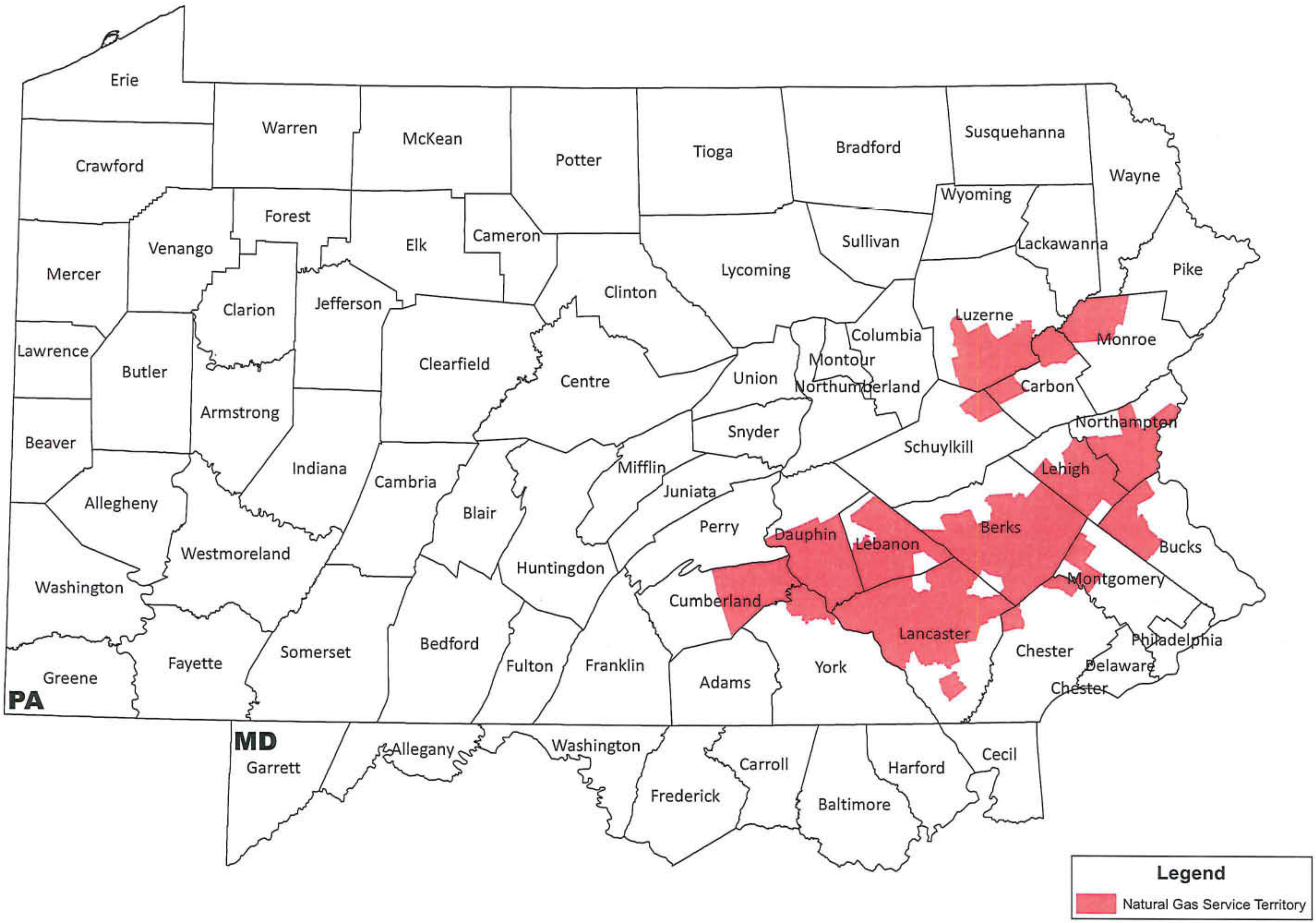
By: Robert F. Beard
Name: Robert F. Beard
Title: President and Chief Executive Officer

Appendix B

Map of UGI Gas Service Territory and List of Communities Served

Map of UGI Gas Service Territory

Energy to do more®



Description of Territory

WEST REGION

DAUPHIN COUNTY: CITY of Harrisburg; BOROUGHS of Dauphin, Highspire, Hummelstown, Middletown, Paxtang, Penbrook, Royalton and Steelton; TOWNSHIPS of Conewago, Derry (including Hershey), East Hanover, Londonderry, Lower Paxton, Lower Swatara, Middle Paxton, South Hanover, Susquehanna, Swatara and West Hanover.

CUMBERLAND COUNTY: BOROUGHS of Camp Hill, Carlisle, Lemoyne, Mechanicsburg, Mt. Holly Springs, New Cumberland, Shiremanstown, West Fairview, Wormleysburg; TOWNSHIPS of Dickinson, East Pennsboro, Hampden, Lower Allen, Middlesex, Monroe, North Middleton, Silver Spring, South Middleton and Upper Allen.

LEBANON COUNTY: CITY of Lebanon; BOROUGHS of Cleona, Cornwall, Myerstown, Palmyra and Richland; TOWNSHIPS of Annville, Bethel, Jackson, Millcreek, North Annville, North Cornwall, North Lebanon, North Londonderry, South Annville, South Lebanon, South Londonderry, Swatara, Union, West Cornwall, and West Lebanon.

YORK COUNTY: TOWNSHIPS of Fairview and Newberry

FRANKLIN COUNTY: Portions of TOWNSHIPS of Greene, Hamilton, and Letterkenny located in the Letterkenny Army Depot.

LANCASTER COUNTY: CITY of Lancaster; BOROUGHS of Adamstown (part), Akron, Columbia, Denver, East Petersburg, Elizabethtown, Ephrata, Lititz, Manheim, Marietta, Millersville, Mount Joy, Mountville, New Holland, Quarryville, and Strasburg; TOWNSHIPS of Brecknock, Caernarvon, Clay, Conoy, Earl, East Earl, East Cocalico, East Donegal, East Drumore, East Hempfield, East Lampeter, Ephrata, Lancaster, Leacock, Manheim, Manor, Mount Joy, Paradise, Penn, Pequea, Rapho, Strasburg, Upper Leacock, Warwick, West Cocalico, West Donegal, West Earl, West Hempfield and West Lampeter.

EAST REGION

BERKS COUNTY: CITY of Reading; BOROUGHS of Adamstown (part), Bally, Birdsboro, Boyertown, Fleetwood, Kenhorst, Kutztown, Laureldale, Leesport, Lyons, Mohnton, Mt. Penn, New Morgan, Robesonia, St. Lawrence, Shillington, Sinking Spring, Topton, Wernersville, West Reading, Womelsdorf, Wyomissing and Wyomissing Hills; TOWNSHIPS of Alsace, Amity, Bern, Caernarvon, Colebrookdale, Cumru, Douglass, Exeter, Heidelberg, Hereford, Longswamp, Lower Alsace, Lower Heidelberg, Maiden Creek, Marion, Maxatawny, Muhlenberg, Ontelaunee, Perry, Richmond, Robeson, Rockland, Ruscombmanor, South Heidelberg, Spring, Union and Washington.

MONTGOMERY COUNTY: TOWNSHIPS of Douglass, New Hanover and a restricted area of Limerick Township.

CHESTER COUNTY: TOWNSHIPS of East Coventry (part), Honey Brook (part), and North Coventry (Part).

Description of Territory - Continued

EAST REGION (Continued)

LEHIGH COUNTY: CITIES of Allentown, Bethlehem (part); BOROUGHS of Alburtis, Catasauqua, Coopersburg, Coplay, Emmaus, Fountain Hill, Macungie, TOWNSHIPS of Hanover, Lower Macungie, North Whitehall, Salisbury, South Whitehall, Upper Macungie, Upper Milford, Upper Saucon, Weisenburg, and Whitehall.

NORTHAMPTON COUNTY: CITIES of Bethlehem (part), Easton; BOROUGHS of Bath, Freemansburg, Glendon, Hellertown, Nazareth, Northampton, North Catasauqua, Stockertown, Tatamy, West Easton, Wilson; TOWNSHIPS of Allen, Bethlehem, Bushkill, East Allen, Forks, Hanover, Lower Mount Bethel, Lower Nazareth, Lower Saucon, Palmer, Upper Nazareth, and Williams.

BUCKS COUNTY: BOROUGHS of Perkasie, Quakertown, Richlandtown, Riegelsville, Sellersville, Silverdale, Trumbauersville; TOWNSHIPS of Durham, East Rockhill, Haycock, Hilltown, Milford, Nockamixon, Richland, Springfield, and West Rockhill.

CARBON COUNTY: BOROUGH of East Side; TOWNSHIPS of Banks, Kidder and Packer.

LUZERNE COUNTY: CITY of Hazleton; BOROUGHS of Conyngham, Freeland, West Hazleton and White Haven; TOWNSHIPS of Butler, Dennison, Foster, Hazel, Hollenback (in part), and Sugarloaf.

MONROE COUNTY: BOROUGH of Mount Pocono; TOWNSHIPS of Chestnuthill, Coolbaugh, Paradise, Pocono, Tobyhanna and Tunkhannok.

SCHUYLKILL COUNTY: BOROUGH of McAdoo; TOWNSHIPS of East Union and Kline.

Appendix C

Income Statement and Balance Sheet for UGI Gas as of September 30, 2017

Pre-Merger
UGI Utilities, Inc.
UGI Gas Division
Statement of Income
Year to Date: September 30, 2017

$ Thousands	UGI Gas Actual	Eliminations Actual	Total Actual
Revenues	$ 463,587	$ (4,865)	$ 458,722
Cost of Sales	(201,990)	4,865	(197,126)
Gross Margin	261,596	-	261,596
Operations Expense	(103,162)	-	(103,162)
Miscellaneous Income	7,429	-	7,429
Total Expenses	(95,733)	-	(95,733)
EBITDA	**165,863**	-	**165,863**
Depreciation & Amortization	(38,990)	-	(38,990)
EBIT	**126,873**	-	**126,873**
Interest Expense	(18,952)	-	(18,952)
EBT	**107,921**	-	**107,921**
Taxes	(35,347)	-	(35,347)
Net Income	**$ 72,573**	**$ -**	**$ 72,573**

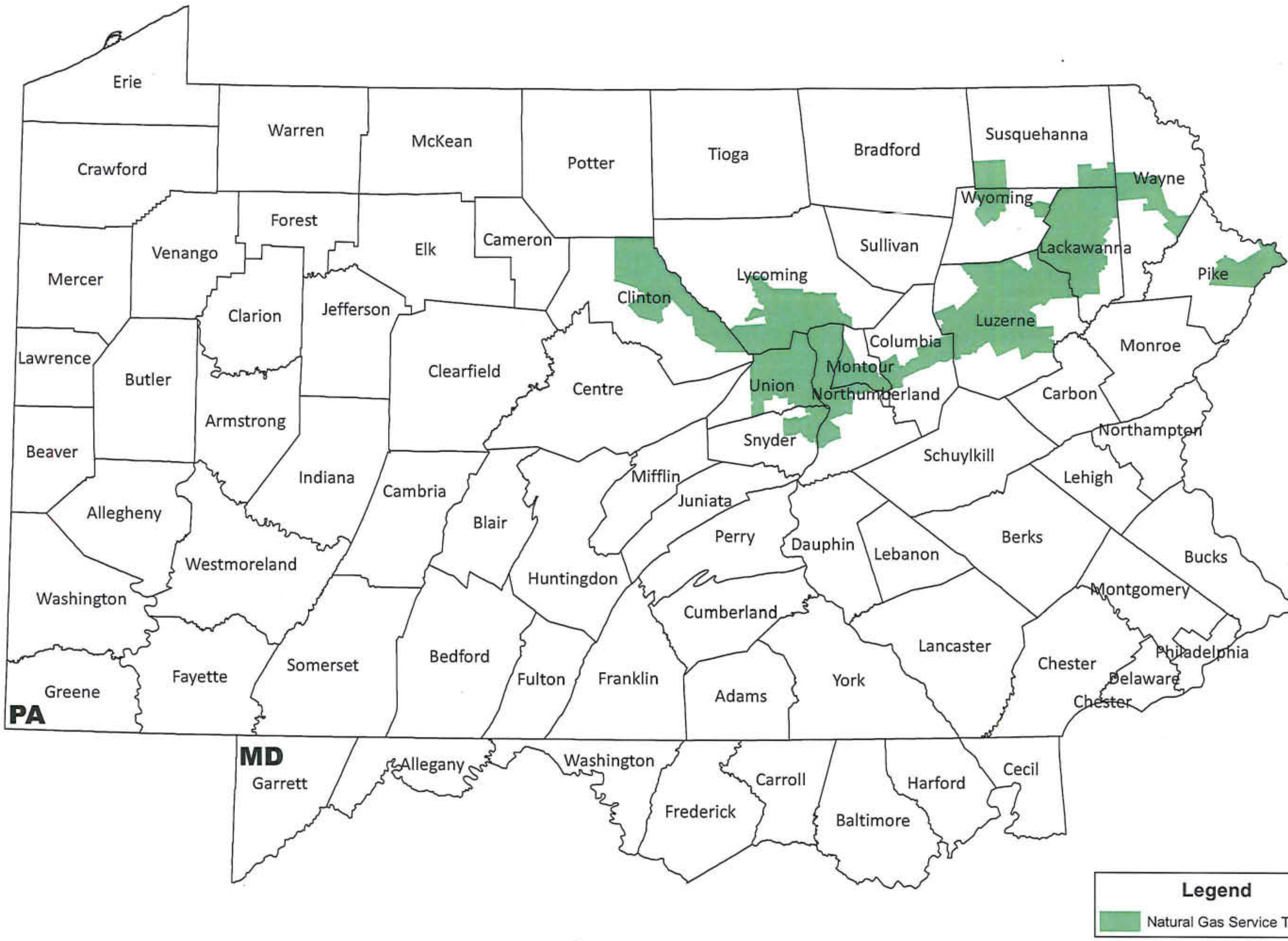
Pre-Merger
UGI Utilities, Inc.
UGI Gas Division
Consolidating Balance Sheet
September 30, 2017

$ Thousands	UGI Gas Actual	Eliminations Actual	Total Actual
Assets			
Cash (excluding restricted cash)	$ 5,508	$ -	$ 5,508
Restricted Cash	1,884	-	1,884
A/R (net of reserves)	47,757	(23,087)	24,670
Inventory	30,211	-	30,211
Prepaid/Other	119,555	(99,414)	20,141
Total Current Assets (excl cash)	197,523	(122,501)	75,022
PP&E	1,726,065	-	1,726,065
Less: Accum. Depreciation	(495,571)	-	(495,571)
Net PP&E	1,230,494	-	1,230,494
Goodwill	-	-	-
Regulatory / Other Assets	1,047,946	(813,479)	234,467
Total Other Assets	1,047,946	(813,479)	234,467
Total Assets	**$ 2,483,355**	**$ (935,980)**	**$ 1,547,375**
Liabilities & Equity			
Accounts Payable	$ 54,454	$ (23,087)	$ 31,367
Other Accrued Expenses	66,393	-	66,393
Total Current Liabilities	120,847	(23,087)	97,760
Total Deferred Credits	525,206	(423,505)	101,701
Total Debt	923,046	(99,164)	823,882
Equity (Excl. OCI)	943,464	(390,224)	553,240
Total Capitalization	1,866,510	(489,388)	1,377,122
OCI	(29,208)	-	(29,208)
Total Liabilities & Equity	**$ 2,483,355**	**$ (935,980)**	**$ 1,547,375**

Appendix D

Map of PNG Service Territory and List of Communities Served

Map of UGI PNG Service Territory



Description of Territory

The Company's charter territory includes Clinton, Columbia, Lackawanna, Luzerne, Lycoming, Montour, Northumberland, Pike, Snyder, Susquehanna, Union, Wayne and Wyoming Counties, Pennsylvania. Gas service is available in all localities where the Company has pipelines, including all or a portion of the following Cities, Boroughs and Townships:

CLINTON COUNTY

Township

Crawford	Gallagher	Grugan
Wayne		

COLUMBIA COUNTY

Boroughs

Berwick	Briar Creek

Town

Bloomsburg

Townships

Briar Creek	Mifflin	South Centre
Hemlock	Montour	Scott

LACKAWANNA COUNTY

Cities

Carbondale	Scranton

Boroughs

Archbald	Dunmore	Olyphant
Blakely	Jermyn	Taylor
Clarks Green	Mayfield	Throop
Clarks Summit	Moosic	Vandling
Dalton	Moscow	Jessup
Dickson City	Old Forge	

Townships

Abington	Glenburn	Ransom
Benton	Greenfield	Roaring Brook
Carbondale	Jefferson	Scott
Clifton	La Plume	South Abington
Covington	Madison	Spring Brook
Elmhurst	Newton	West Abington
Fell	North Abington	

Description of Territory - Continued

LUZERNE COUNTY

Cities

Nanticoke	Wilkes-Barre	Pittston

Boroughs

Ashley	Harvey's Lake	Plymouth
Avoca	Kingston	Pringle
Courtdale	Laflin	Shickshinny
Dallas	Larksville	Swoyersville
Dupont	Laurel Run	Sugar Notch
Duryea	Luzerne	Warrior Run
Edwardsville	Nescopeck	West Wyoming
Exeter	New Columbus	Wyoming
Forty Fort	Nuangola	Yatesville

Townships

Bear Creek	Hollenback	Pittston
Buck	Hunlock	Plains
Conyngham	Huntington	Plymouth
Dallas	Jackson	Rice
Dorrance	Jenkins	Ross
Exeter	Kingston	Salem
Fairmount	Lake	Slocum
Fairview	Lehman	Union
Franklin	Nescopeck	Wilkes-Barre
Hanover	Newport	Wright

LYCOMING COUNTY

City

Williamsport

Boroughs

Duboistown	Montoursville	South Williamsport
Montgomery	Muncy	

Townships

Anthony	Jordan	Old Lycoming
Armstrong	Limestone	Penn (Part)
Bastress	Loyalsock	Shresbury (Part)
Brady	Lycoming	Susquehanna
Clinton	Millcreek	Upper Fairchield
Eldred	Moreland	Washington
Fairfield	Muncy	Wolf (Part)
Franklin	Muncy Creek	Woodward
Hepburn		

Description of Territory - Continued

MONTOUR COUNTY

Borough

Danville

Townships

Cooper	Mahoning	Valley
Limestone		

NORTHUMBERLAND COUNTY

City

Sunbury

Boroughs

Milton	Riverside	Watsontown
Northumberland	Turbotville	

Townships

Delaware	Point	Upper Augusta
Lewis Twp.	Turbot	West Chillisquaque

PIKE COUNTY

Boroughs

Milford

Townships

Lehman	Milford	Westfall
Dingman		

SNYDER COUNTY

Boroughs

Selinsgrove	Shamokin Dam

Townships

Middlecreek	Monroe	Penn

Description of Territory - Continued

SUSQUEHANNA COUNTY

Boroughs

Forest City	Uniondale

Townships

Auburn	Clifford

UNION COUNTY

Townships

Buffalo (Part)	Kelly (Part)	West Buffalo (Part)
East Buffalo (Part)	Union (Part)	White Deer
Gregg	Lewis	

WAYNE COUNTY

Boroughs

Bethany	Hawley	Honesdale
Waymart		

(C)

Townships

Berlin	Clinton	Palmyra
Canaan	Dyberry	Paupack
Cherry Ridge	Oregon	Texas

WYOMING COUNTY

Boroughs

Factoryville	Meshoppen	Tunkhannock
Laceyville	Nicholson	

Townships

Braintrim	Lemon	Northmoreland
Clinton	Mehoopany	Noxen
Eaton	Meshoppen	Overfield
Exeter	Monroe	Tunkhannock
Falls	Nicholson	Washington
Forkston	North Branch	Windham

(C) Indicates Change

Appendix E

Income Statement and Balance Sheet for PNG as of September 30, 2017

Pre-Merger
UGI Utilities, Inc.
UGI Penn Natural Gas, Inc.
Statement of Income
Year to Date: September 30, 2017

$ Thousands	**UGI PNG Actual**	**Eliminations Actual**	**Total Actual**
Revenues	$ 212,536	$ -	$ 212,536
Cost of Sales	(84,514)	-	(84,514)
Gross Margin	128,021	-	128,021
Operations Expense	(61,829)	-	(61,829)
Miscellaneous Income	247	-	247
Total Expenses	(61,582)	-	(61,582)
EBITDA	**66,440**	**-**	**66,440**
Depreciation & Amortization	(17,358)	-	(17,358)
EBIT	**49,082**	**-**	**49,082**
Interest Expense	(12,699)	-	(12,699)
EBT	**36,382**	-	**36,382**
Taxes	(18,822)	-	(18,822)
Net Income	**$ 17,560**	**$ -**	**$ 17,560**

Pre-Merger
UGI Utilities, Inc.
UGI Penn Natural Gas, Inc.
Consolidating Balance Sheet
September 30, 2017

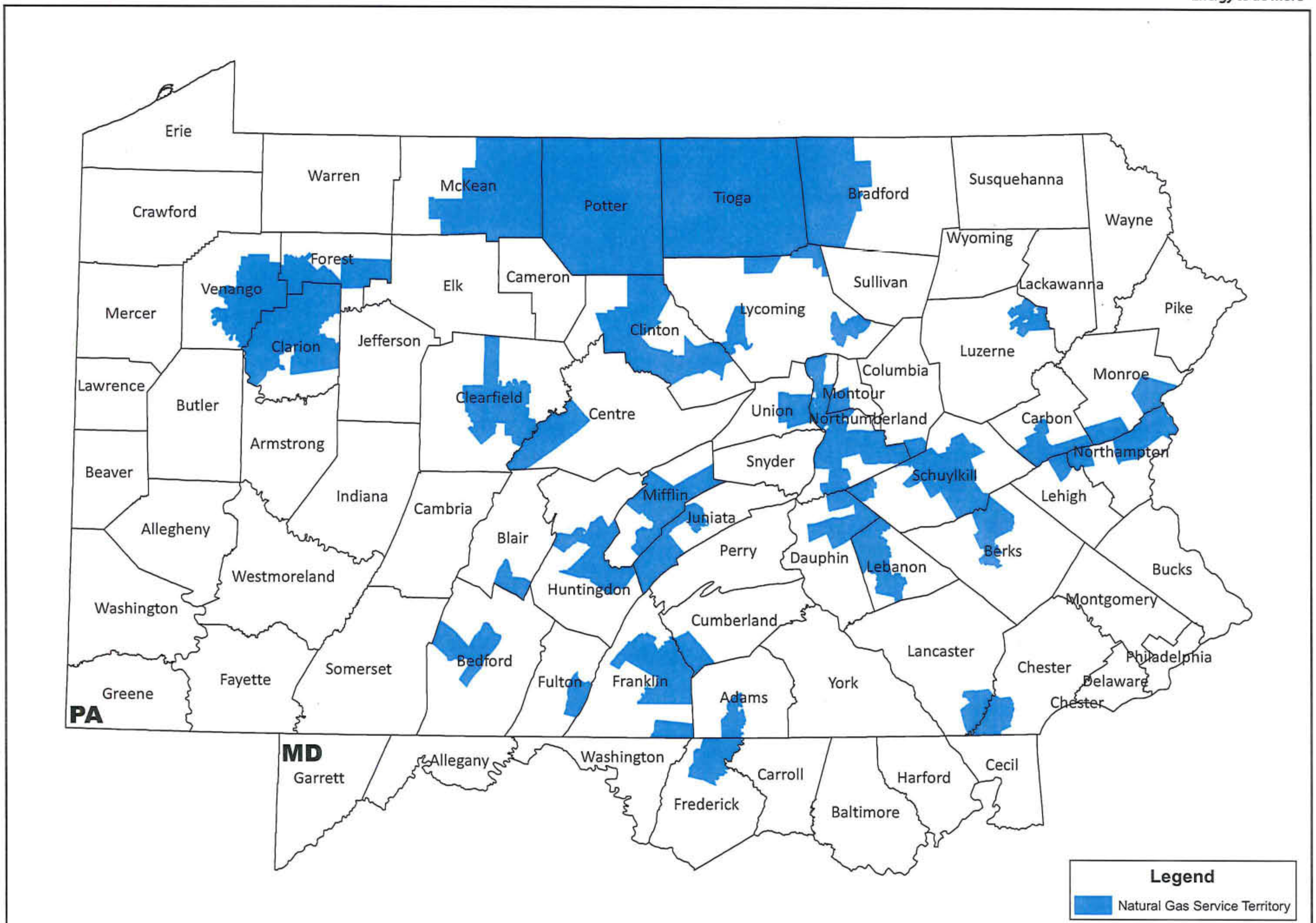
$ Thousands	**UGI PNG Actual**	**Eliminations Actual**	**Total Actual**
Assets			
Cash (excluding restricted cash)	$ 1,687	$ -	$ 1,687
Restricted Cash	834	-	834
A/R (net of reserves)	22,185	(2,691)	19,494
Inventory	13,520	-	13,520
Prepaid/Other	3,723	-	3,723
Total Current Assets (excl cash)	39,428	(2,691)	36,737
PP&E	884,021	-	884,021
Less: Accum. Depreciation	(286,157)	-	(286,157)
Net PP&E	597,864	-	597,864
Goodwill	161,726	-	161,726
Regulatory / Other Assets	69,183	-	69,183
Total Other Assets	230,909	-	230,909
Total Assets	**$ 870,722**	**$ (2,691)**	**$ 868,031**
Liabilities & Equity			
Accounts Payable	$ 22,248	$ (2,691)	$ 19,557
Other Accrued Expenses	30,371	(211)	30,160
Total Current Liabilities	52,619	(2,902)	49,717
Total Deferred Credits	197,927	284,714	482,641
Total Debt	87,456	-	87,456
Equity (Excl. OCI)	532,640	(284,503)	248,137
Total Capitalization	620,096	(284,503)	335,593
OCI	80	-	80
Total Liabilities & Equity	**$ 870,722**	**$ (2,691)**	**$ 868,031**

Appendix F

Map of CPG Service Territory and List of Communities Served

Map of UGI CPG Service Territory

Energy to do more®



Description of Territory

ADAMS COUNTY

Townships

Cumberland	Freedom		

ARMSTRONG COUNTY

Cities

Parker

BEDFORD COUNTY

Boroughs

Bedford	Everett		

Townships

Bedford	Monroe	Snake Spring Valley	
Colerain	Napier	West Providence	

BERKS COUNTY

Boroughs

Hamburg	Shoemakersville	Leesport	Centerpoint	(C)

Townships

Centre	Perry	Tilden	Windsor	
Jefferson				(C)

BLAIR COUNTY

Boroughs

Martinsburg	Roaring Spring		

Townships

Huston	North Woodbury	Taylor	Woodbury

BRADFORD COUNTY

Boroughs

Alba	Canton	Sylvania	Troy
Burlington			

Townships

Armenia	Columbia	Ridgebury	Troy
Burlington	Granville	Smithfield	Wells
Canton	LeRoy	South Creek	West Burlington
		Springfield	Ulster

(C) Indicates Change

Description of Territory

CARBON COUNTY

Boroughs

Bowmanstown	Lehighton	Palmerton	Weissport
Jim Thorpe			

Townships

East Penn	Lower Towamensing	Mahoning (part)

CENTRE COUNTY

Boroughs

Philipsburg	South Philipsburg

Townships

Rush

CHESTER COUNTY

Boroughs

Oxford

Townships

East Nottingham	Lower Oxford	Upper Oxford	West Nottingham
Elk			

CLARION COUNTY

Boroughs

Callensburg	Silgo	(C)

Townships

Ashland	Highland	Monroe	Salem
Beaver	Knox	Paint	Toby
Clarion	Licking	Perry	Washington
Elk	Limestone	Piney	
Farmington	Millcreek	Richland	

CLEARFIELD COUNTY

Boroughs

Chester Hill	Curwensville	Wallaceton
Clearfield and Environs		

(C) Indicates Change

Description of Territory

Townships

Boggs	Decatur	Lawrence	Pike
Bradford	Knox	Morris	

CLINTON COUNTY

Cities

Lock Haven

Boroughs

Avis	Flemington	Renovo	South Renovo
Beech Creek	Mill Hall		

Townships

Allison	Bald Eagle	Chapman	Noyes	
Beech Creek	Castanea	Dunnstable	Pine Creek	
(portion)	Wayne	Woodward		(C)

COLUMBIA COUNTY

Boroughs

Centralia

Townships

Conyngham

CUMBERLAND COUNTY

Boroughs

Shippensburg

Townships

Shippensburg	Southampton

(C)

DAUPHIN COUNTY

Townships (C)

Jackson	Jefferson	Lykens	Rush	(C)
Williams				(C)

FOREST COUNTY

Boroughs

Tionesta

Townships

Barnett	Harmony	Tionesta
Green	Jenks	

(C) Indicates Change

Description of Territory

FRANKLIN COUNTY

Boroughs

Orrstown	Shippensburg	Waynesboro	

Townships

Greene (portion)	Guilford (portion)	Southampton	Washington

FULTON COUNTY

Boroughs

McConnellsburg

Townships

Ayr(portion)	Todd

HUNTINGDON COUNTY

Boroughs

Huntingdon	Mapleton	Mill Creek	Mount Union

Townships

Brady	Juniata	Shirley	Union
Henderson	Oneida	Smithfield	Walker

JEFFERSON COUNTY

Boroughs

Summerville

Townships

Barnett

JUNIATA COUNTY

Townships

Tuscarora	Lack	Milford	(C)

LANCASTER COUNTY

Townships

Colerain	Little Britain

LEBANON COUNTY (C)

Townships (C)

Cold Spring	East Hanover	(C)

(C) Indicates Change

Description of Territory

LEHIGH COUNTY

Boroughs

Slatington

Townships

Washington

LUZERNE COUNTY

Cities

Pittston

Boroughs

Exeter	Laflin	Pittston	Yatesville	
Hughestown	(portion)	West Pittston	Wyoming	(C)

Townships

Jenkins (portion)	Pittston

LYCOMING COUNTY

Boroughs

Hughesville	Jersey Shore	Picture Rocks	Salladsburg

Townships

Jackson	Penn (portion)	Porter	Wolf
Mifflin (portion)	Piatt	Shrewsbury (portion)	
McNett			
Nippenose			

MCKEAN COUNTY

Boroughs

Eldred	Port Allegany	Mount Jewett

Townships

Annin	Eldred	Keating	Norwich
Ceres	Hamlin	Liberty	Otto
			Sergeant

MIFFLIN COUNTY

Boroughs

Burnham	Juniata Terrace	Lewistown	McVeytown

Townships

Armagh	Brown	Granville	Union
Bratton	Derry	Menno	Decatur

(C) Indicates Change

Description of Territory

MONROE COUNTY

Boroughs

Delaware Water Gap	East Stroudsburg	Stroudsburg

Townships

Eldred	Middle Smithfield	Ross	Stroud
Hamilton	Pocono	Smithfield	

MONTOUR COUNTY

Township

Liberty (portion)

NORTHAMPTON COUNTY

Boroughs

Bangor	Pen Argyl & Vicinity	Walnutport	Wind Gap
East Bangor	Roseto	Portland	

Townships

Bushkill	Plainfield	Upper Mt. Bethel	Washington	
Lehigh				(C)

NORTHUMBERLAND COUNTY

Cities

Shamokin	Sunbury

Boroughs

Kulpmont	Marion Heights	Mount Carmel	Snydertown

Townships

Coal	Little Mahanoy	Ralpho	Washington
East Cameron	Lower Augusta	Rockefeller	West Cameron
Jordan	Mount Carmel	Shamokin	Zerbe
East Chillisquaque	Point	West Chillisquaque	Upper Augusta

(C) Indicates Change

Description of Territory

POTTER COUNTY

Boroughs

Austin	Coudersport	Hebron	Shinglehouse
Bingham	Galeton	Oswayo	Ulysses

Townships

Abbott	Hector	Pleasant Valley	Sylvania
Allegany	Hebron	Portage	Ulysses
Clara	Homer	Roulette	West Branch
Eulalia	Keating	Sharon	Wharton
Genesee	Oswayo	Summit	
Harrison	Pike	Sweden	

SCHUYLKILL COUNTY

Cities

Pottsville

Boroughs

Ashland	Gilberton	Middleport	Palo Alto
Auburn	Girardville	Minersville	Port Carbon
Cressona	Gordon	Mount Carbon	Port Clinton
Deer Lake	Landingville	New Philadelphia	Ringtown
Frackville	Mechanicsville	Orwigsburg	St. Clair
			Schuylkill Haven

Townships

Blythe	Foster	North Manheim	Upper Mahantongo
Branch	Hubley	Norweigan	South Manheim
Butler	Mahanoy (portion)	Ryan	West Brunswick
East Norwegian	New Castle	Union	West Mahanoy
Cass			

(C)

(C) Indicates Change

Description of Territory

TIOGA COUNTY

Boroughs

Blossburg	Lawrenceville	Roseville	Westfield
Elkland	Liberty	Tioga	
Knoxville	Mansfield	Wellsboro	

Townships

Bloss	Delmar	Lawrence	Rutland
Brookfield	Duncan	Liberty	Shippen
Charleston	Elkland	Middlebury	Sullivan
Chatham	Farmington	Nelson	Tioga
Clymer	Gaines	Osceola	Union
Covington	Hamilton	Putnam	Ward
Deerfield	Jackson	Richmond	Westfield

UNION COUNTY

Boroughs

Lewisburg

Townships

Buffalo	East Buffalo	Kelly	Union (portion)

VENANGO COUNTY

Cities

Oil City

Boroughs

Rouseville	Sugarcreek

Townships

Clinton	Cranberry	President	Rockland
Cornplanter	Pinegrove	Richland	

Appendix G

Income Statement and Balance Sheet for CPG as of September 30, 2017

Pre-Merger
UGI Utilities, Inc.
UGI Central Penn Gas, Inc.
Statement of Income
Year to Date: September 30, 2017

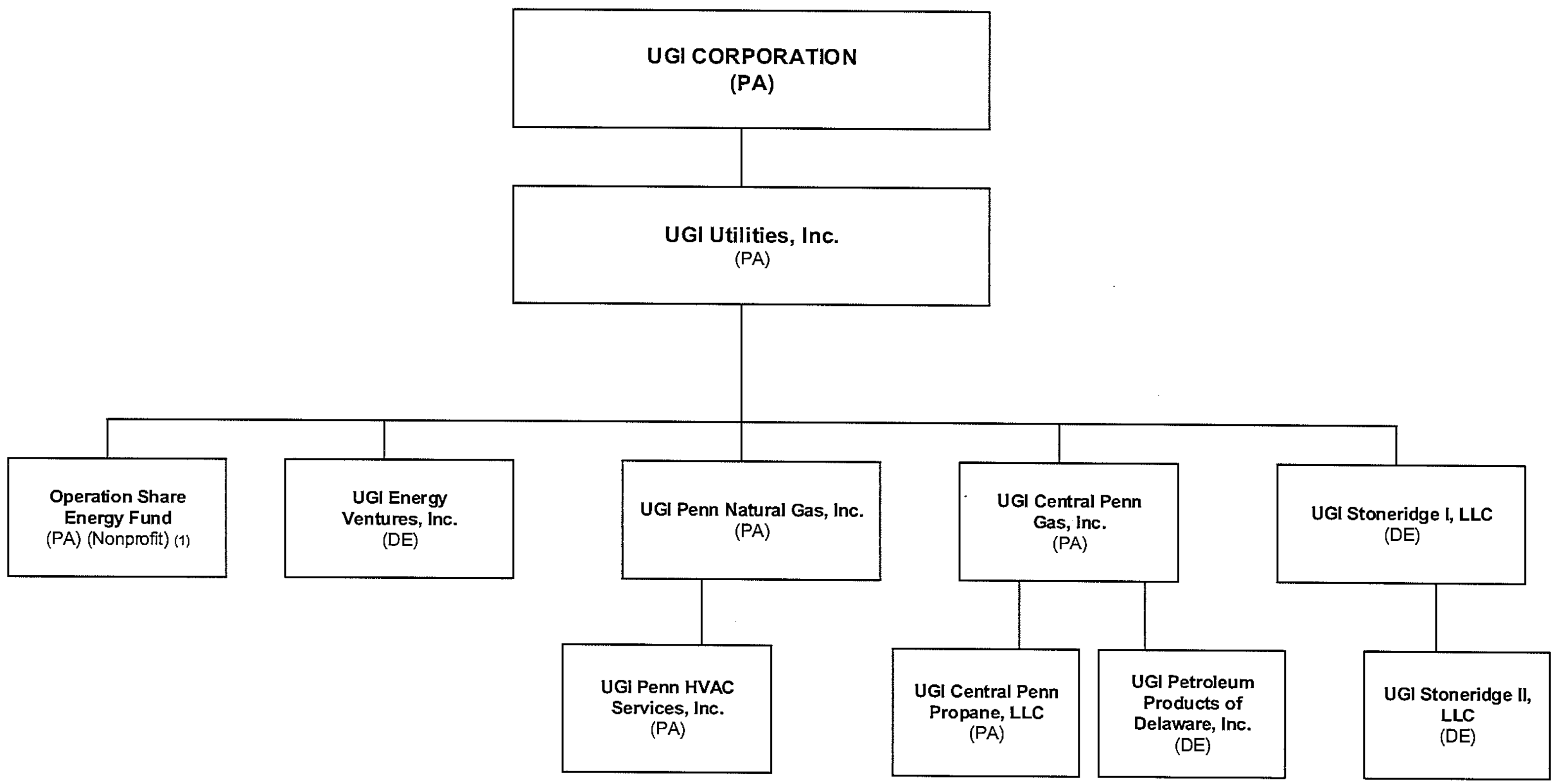
$ Thousands	UGI CPG Actual	Eliminations Actual	Total Actual
Revenues	$ 127,796	$ -	$ 127,796
Cost of Sales	(36,569)	-	(36,569)
Gross Margin	91,226	-	91,226
Operations Expense	(37,126)	-	(37,126)
Miscellaneous Income	516	-	516
Total Expenses	(36,610)	-	(36,610)
EBITDA	**54,616**	-	**54,616**
Depreciation & Amortization	(11,009)	-	(11,009)
EBIT	**43,607**	-	**43,607**
Interest Expense	(6,567)	-	(6,567)
EBT	**37,041**	-	**37,041**
Taxes	(17,038)	-	(17,038)
Net Income	**$ 20,003**	**$ -**	**$ 20,003**

Pre-Merger
UGI Utilities, Inc.
UGI Central Penn Gas, Inc.
Consolidating Balance Sheet
September 30, 2017

$ Thousands	UGI CPG Actual	Eliminations Actual	Total Actual
Assets			
Cash (excluding restricted cash)	$ 2,579	$ -	$ 2,579
Restricted Cash	328	-	328
A/R (net of reserves)	10,577	(1,225)	9,352
Inventory	8,011	-	8,011
Prepaid/Other	5,328	-	5,328
Total Current Assets (excl cash)	23,916	(1,225)	22,691
PP&E	483,749	-	483,749
Less: Accum. Depreciation	(154,371)	-	(154,371)
Net PP&E	329,378	-	329,378
Goodwill	20,419	-	20,419
Regulatory / Other Assets	42,622	-	42,622
Total Other Assets	63,041	-	63,041
Total Assets	**$ 419,242**	**$ (1,225)**	**$ 418,017**
Liabilities & Equity			
Accounts Payable	$ 14,067	$ (1,225)	$ 12,842
Other Accrued Expenses	12,726	(38)	12,688
Total Current Liabilities	26,793	(1,263)	25,530
Total Deferred Credits	101,930	138,813	240,743
Total Debt	9,763	-	9,763
Equity (Excl. OCI)	280,861	(138,775)	142,086
Total Capitalization	290,624	(138,775)	151,849
OCI	(105)	-	(105)
Total Liabilities & Equity	**$ 419,242**	**$ (1,225)**	**$ 418,017**

Appendix H

Pre-Merger Corporate Organization Chart

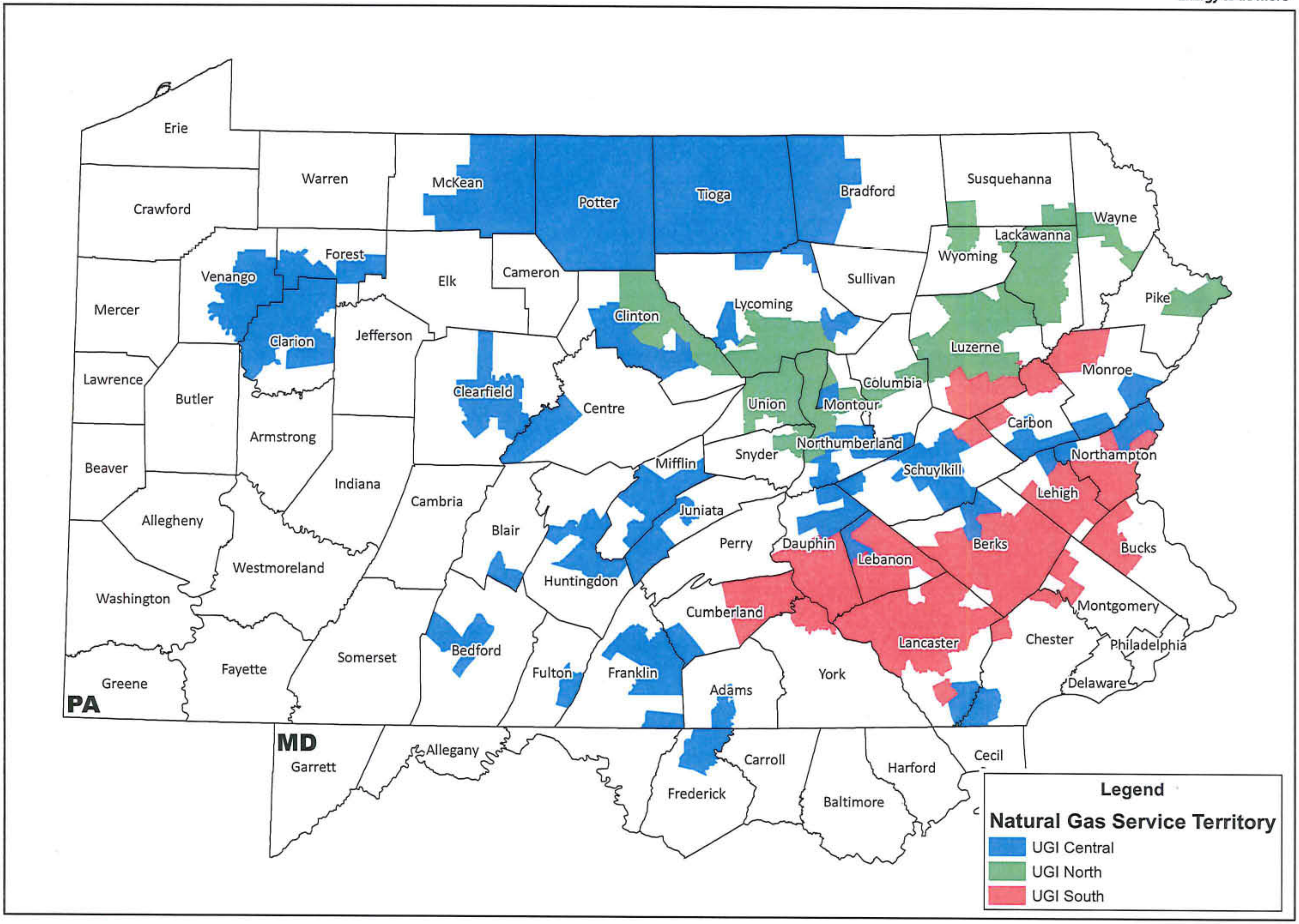


Prior to Closing of Proposed Transaction
(as of February 5, 2018)

Appendix I

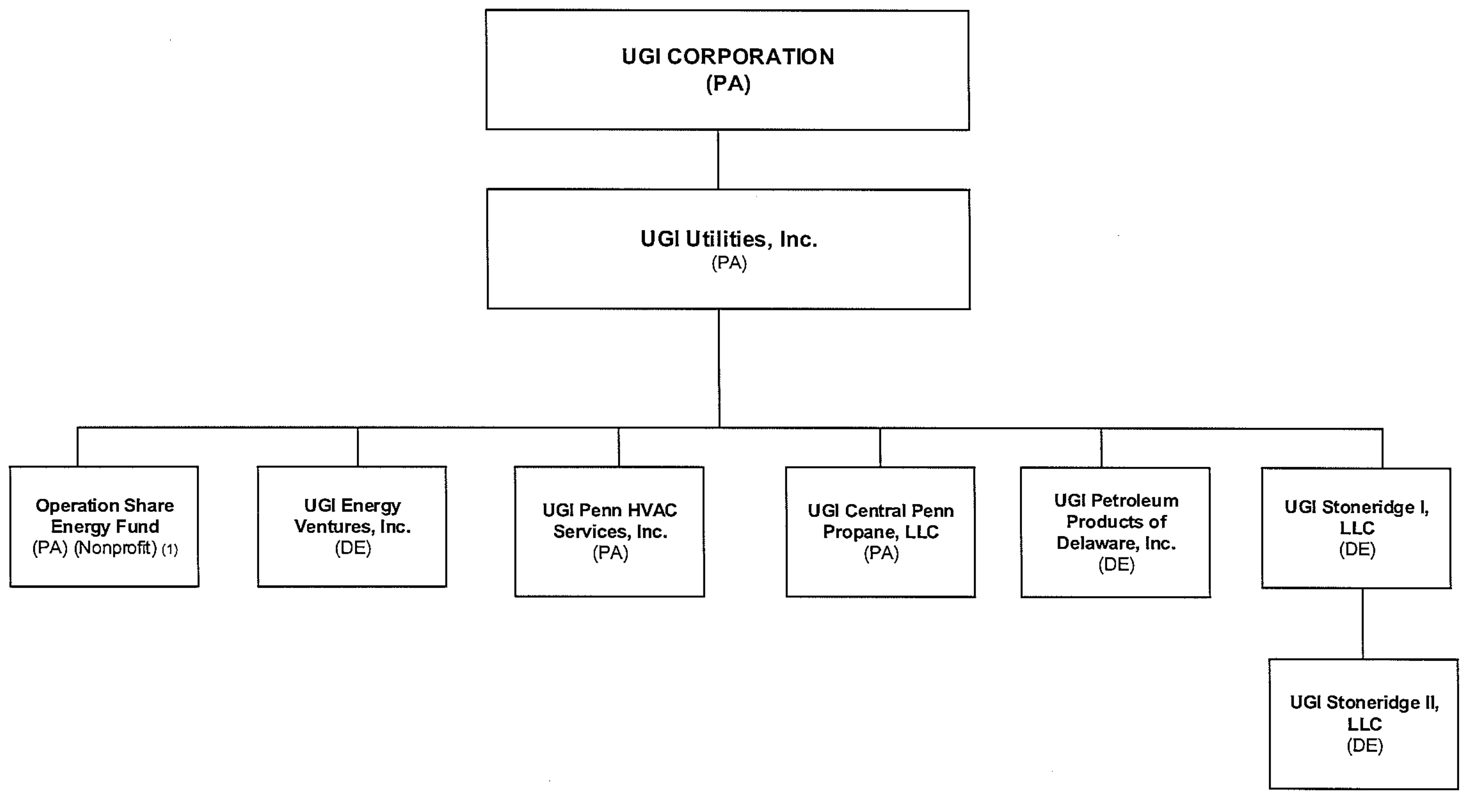
Map of Merged Service Territory

Map of Post-Merger UGI Utilities, Inc. Gas Division by Rate District



Appendix J

Pro Forma Post-Merger Corporate Organization Chart



Following Closing of Proposed Transaction

Appendix K

Pro Forma Income Statement and Balance Sheet for Merged Companies

Post-Merger
UGI Utilities, Inc.
Merged Companies
Statement of Income
Year to Date: September 30, 2017

$ Thousands	Combined Gas Utility Actual	Electric Utility Actual	Total UGI Utilities Actual
Revenues	$ 799,054	$ 88,534	$ 887,588
Cost of Sales	(318,209)	(49,069)	(367,279)
Gross Margin	480,844	39,465	520,309
Operations Expense	(202,117)	(25,882)	(227,999)
Miscellaneous Income	8,192	138	8,330
Total Expenses	(193,925)	(25,744)	(219,670)
EBITDA	**286,919**	**13,720**	**300,639**
Depreciation & Amortization	(67,357)	(4,975)	(72,332)
EBIT	**219,562**	**8,746**	**228,307**
Interest Expense	(38,218)	(1,995)	(40,212)
EBT	**181,344**	**6,751**	**188,095**
Taxes	(71,207)	(846)	(72,053)
Net Income	**$ 110,137**	**$ 5,905**	**$ 116,041**

Post-Merger
UGI Utilities, Inc.
Merged Companies
Consolidating Balance Sheet
September 30, 2017

$ Thousands	Combined Gas Utility Actual	Electric Utility Actual	UGI Utilities, Inc. Actual
Assets			
Cash (excluding restricted cash)	$ 9,774	$ (4,571)	$ 5,203
Restricted Cash	3,046	-	3,046
A/R (net of reserves)	53,516	16,307	69,823
Inventory	51,742	1,567	53,309
Prepaid/Other	29,192	4,617	33,809
Total Current Assets (excl cash)	134,450	22,491	156,941
PP&E	3,093,835	191,494	3,285,329
Less: Accum. Depreciation	(936,099)	(74,682)	(1,010,781)
Net PP&E	2,157,736	116,812	2,274,548
Goodwill	182,145	-	182,145
Regulatory / Other Assets	346,272	25,860	372,132
Total Other Assets	528,417	25,860	554,277
Total Assets	**$ 2,833,423**	**$ 160,592**	**$ 2,994,015**
Liabilities & Equity			
Accounts Payable	$ 63,766	$ 14,683	$ 78,449
Other Accrued Expenses	109,241	15,796	125,037
Total Current Liabilities	173,007	30,479	203,486
Total Deferred Credits	825,085	56,438	881,523
Total Debt	921,101	-	921,101
Equity (Excl. OCI)	943,463	71,233	1,014,696
Total Capitalization	1,864,564	71,233	1,935,797
OCI	(29,233)	2,442	(26,791)
Total Liabilities & Equity	**$ 2,833,423**	**$ 160,592**	**$ 2,994,015**

VERIFICATION

I, Kent D. Murphy, being the Vice Present, Law for UGI Utilities, Inc., hereby state that the information set forth in the above-captioned Application and appendices is true and correct to the best of my knowledge, information, and belief, and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 relating to unsworn falsification to authorities.

Date: 3/8/2018

Kent D. Murphy

Kent D. Murphy
Vice President, Law
UGI Utilities, Inc.
460 North Gulph Road
King of Prussia, PA 19406

VERIFICATION

I, Paul J. Szykman, being the Chief Regulatory Officer for UGI Utilities, Inc., hereby state that the testimony set forth in UGI Statement No. 1 is true and correct to the best of my knowledge, information, and belief and that if asked orally at a hearing in this matter my answers would be as set forth therein. I am also sponsoring UGI Exhibits PJS-1 and PJS-2. I hereby state that the aforementioned exhibits are true and correct to the best of my knowledge, information, and belief.

I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 relating to unsworn falsification to authorities.

Date: 8/13/18

Paul J. Szykman

Appendix B

OCA STATEMENT NO. 1

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

UGI Utilities, Inc.	**:**	**Docket Nos. A-2018-3000381,**
UGI Central Penn Gas, Inc.	**:**	**A-2018-3000382, A-2018-3000383**
UGI Penn Natural Gas, Inc.	**:**	

DIRECT TESTIMONY OF

JEROME D. MIERZWA

ON BEHALF OF

OFFICE OF CONSUMER ADVOCATE

July 10, 2018

I. INTRODUCTION

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

A. My name is Jerome D. Mierzwa. I am a Principal and Vice President of Exeter Associates, Inc. ("Exeter"). My business address is 10480 Little Patuxent Parkway, Suite 300, Columbia, Maryland 21044. Exeter specializes in providing public utility-related consulting services.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I graduated from Canisius College in Buffalo, New York in 1981 with a Bachelor of Science Degree in Marketing. In 1985, I received a Master's Degree in Business Administration with a concentration in finance, also from Canisius College. In July 1986, I joined National Fuel Gas Distribution Corporation ("NFGD") as a Management Trainee in the Research and Statistical Services Department ("RSS"). I was promoted to Supervisor RSS in January 1987. While employed with NFGD, I conducted various financial and statistical analyses related to the company's market research activity and state regulatory affairs. In April 1987, as part of a corporate reorganization, I was transferred to National Fuel Gas Supply Corporation's ("NFG Supply") rate department where my responsibilities included utility cost of service and rate design analysis, expense and revenue requirement forecasting, and activities related to federal regulation. I was also responsible for preparing NFG Supply's Federal Energy Regulatory Commission ("FERC") Purchased Gas Adjustment ("PGA") filings and developing interstate pipeline and spot market supply gas price projections. These forecasts were utilized for internal planning purposes as well as in NFGD's 1307(f) proceedings.

In April 1990, I accepted a position as a Utility Analyst with Exeter. In December 1992, I was promoted to Senior Regulatory Analyst. Effective April 1, 1996, I became a principal of Exeter. Since joining Exeter, I have specialized in evaluating the gas purchasing practices and policies of natural gas utilities, utility class cost of service and rate design analysis, sales and rate forecasting, performance-based incentive regulation, revenue requirement analysis, the unbundling of utility services, and evaluation of customer choice natural gas transportation programs.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY PROCEEDINGS ON UTILITY RATES?

A. Yes. I have provided testimony on more than 300 occasions in proceedings before the FERC, and state utility regulatory commissions in Arkansas, Delaware, Georgia, Illinois, Indiana, Louisiana, Maine, Massachusetts, Montana, Nevada, New Jersey, Ohio, Rhode Island, Texas, Utah, and Virginia, as well as before the Pennsylvania Public Utility Commission ("Commission").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. On March 8, 2018, UGI Utilities, Inc. ("UGI Utilities"), UGI Penn Natural Gas, Inc. ("PNG"), and UGI Central Penn Gas, Inc. ("CPG") (collectively, the "Companies") filed a Joint Application seeking all necessary approvals and authority to accomplish the merger of PNG and CPG with and into UGI Utilities. Exeter has been retained by the Pennsylvania Office of Consumer Advocate ("OCA") to assist in evaluating the Companies' proposed merger. My testimony presents my recommendations concerning the proposed merger.

Q. PLEASE DESCRIBE THE COMPANIES' JOINT APPLICATION IN GREATER DETAIL.

A. In the Joint Application, the Companies are seeking all necessary approvals and authority to accomplish the merger of PNG and CPG with and into UGI Utilities, including the abandonment of natural gas service by PNG and CPG, and UGI Utilities' adoption of the existing PNG and CPG tariffs, certificates of public convenience, and other items necessary to complete the merger. This will result in UGI Utilities having three rate districts: UGI South (formerly UGI Gas), UGI North (formerly PNG), and UGI Central (formerly CPG). The Companies propose to separately maintain and file a number of items, including purchased gas cost portfolios and rates, Energy Efficiency and Conservation programs, Universal Service programs and budgets, Long-Term Infrastructure Improvement Programs ("LTIIPs"), and Distribution System Improvement Charges ("DSICs"). However, the Companies propose 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.

Q. DOES THE JOINT APPLICATION PROVIDE FOR THE CONSOLIDATION OF BASE RATES?

A. No, it does not. The existing rates of UGI, PNG, and CPG will remain in place. However, the Joint Application indicates that it is the intention of the Companies to consolidate base rates in future rate case filings.

Q. CAN A DECISION ON CONSOLIDATION OF BASE RATES BE MADE IN THIS CASE?

A. No. It will be important to review any future proposal based upon a detailed plan, adequate cost of service information and a full identification of any efficiencies and benefits to customers. Each of the Companies serves different service territories, and the costs associated with providing service in each territory are different. To examine whether the consolidation of rates will benefit ratepayers, as a condition of this merger application, the Companies should be required to continue to maintain separate cost of service and accounting records until the Companies' next rate case. This will allow interested parties to fully evaluate the impact of the merger on rates. In the next rate case, the Companies can present a proposal to consolidate rates and should present the individual district revenue requirements and cost of service studies as well as the identified efficiencies and benefits so that the proposal can be properly evaluated.

Q. ARE THERE OTHER CONCERNS WITH THE COMPANIES' PROPOSAL IN THIS CASE?

A. Yes. The Companies are proposing to file one Chapter 71 financial report as a result of this case. Until the rates and operations are consolidated, each company should continue to file a separate Chapter 71 financial report. This is particularly important in relation to the DSIC since the Chapter 71 financial report provides the information necessary for an important consumer protection that accompanies the DSIC. If a company is earning more than the authorized rate of return as determined by the Chapter 71 financial report, the DSIC must be zeroed out until the authorized rate of return falls below the authorized level. Combining the Chapter 71 financial report of the three companies could have the unintended effect of allowing one division to avoid this protection simply because of a lower rate of return in the other two divisions. Until consolidation, each division should have a separate Chapter 71 financial report and separate DSIC based on the approved LTIIP for the division.

Q. DOES THE OCA OPPOSE ADOPTING UNIFORM TERMS AND CONDITIONS UNDER THE COMPANIES' SUPPLIER TARIFFS?

A. No, the OCA does not oppose adopting uniform supplier tariffs.

Q. WILL THE COMPANIES CONTINUE TO SEPARATELY TRACK SPENDING ON UNIVERSAL SERVICE PROGRAMS UNDER THE MERGER?

A. The Companies have indicated that they will continue to separately track spending on Universal Service Programs under the merger, and the Companies should continue to maintain their current spending levels. The Companies' rate districts currently have different spending levels and needs related to Universal Service Programs, and as such the Companies must continue to track spending and need by district, and maintain current spending levels in each rate district after the merger is complete.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

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 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

VERIFICATION

I, Jerome D. Mierzwa , hereby state that the facts above set forth in my Direct Testimony OCA Statement No. 1 are true and correct and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

Signature: Jerome D. Mierzwa

Jerome D. Mierzwa
Exeter Associates, Inc.
Suite 300
10480 Little Patuxent Parkway
Columbia, MD 21044
jmierzwa@exeterassociates.com

DATED: July 10, 2018
*253918

Appendix C

OSBA Statement No. 1

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Joint Application of UGI Utilities, Inc., UGI Penn Natural Gas, Inc., and UGI Central Penn Gas, Inc. for All of the Necessary Authority, Approvals, and Certificates of Public Convenience for (1) an Agreement and Plan of Merger; (2) the Merger of UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc. into UGI Utilities, Inc.; (3) the initiation by UGI Utilities, Inc. of natural gas service in all territory in this Commonwealth where UGI Penn Natural Gas, Inc. and UGI Central Penn Gas do or may provide natural gas service; (4) the abandonment by UGI Penn Natural Gas, Inc. of all natural gas service in this Commonwealth; (5) the abandonment by UGI Central Penn Gas, Inc. of all natural gas service in this Commonwealth; (6) the adoption by UGI Utilities, Inc. of UGI Penn Natural Gas, Inc.'s and UGI Central Penn Gas, Inc.'s Existing Tariffs and their Application within New Service and Rate Districts of UGI Utilities, Inc. Corresponding to their Existing Service Territories as UGI North and UGI Central, Respectively; (7) the adoption by UGI Utilities of its Existing Tariff to be applied to a new UGI South Service and Rate District; (8) Where Necessary, Associated Affiliated Interest Agreements; and (9) any Other Approvals Necessary to Complete the Contemplated Transaction	:	**Docket Nos. A-2018-3000381 A-2018-3000382 A-2018-3000383**

Direct Testimony and Exhibits of

ROBERT D. KNECHT

On Behalf of the

Pennsylvania Office of Small Business Advocate

Topics:

NGDC Merger

Date Served: July 10, 2018

Date Submitted for the Record: ____________________________

DIRECT TESTIMONY OF ROBERT D. KNECHT

1. Witness Identification and Summary of Conclusions

Q. Mr. Knecht, please state your name and briefly describe your qualifications.

A. My name is Robert D. Knecht. I am a Principal of Industrial Economics, Incorporated ("IEc"), a consulting firm located at 2067 Massachusetts Avenue, Cambridge, MA 02140. I specialize in the economic analysis of basic industries. My consulting practice currently consists primarily of the preparation of analysis and expert testimony in the field of regulatory economics on a variety of topics. I obtained a B.S. degree in Economics from the Massachusetts Institute of Technology in 1978, and a M.S. degree in Management from the Sloan School of Management at M.I.T. in 1982, with concentrations in applied economics and finance. I am appearing in this proceeding on behalf of the Pennsylvania Office of Small Business Advocate ("OSBA"). My résumé and a listing of the expert testimony that I have filed in utility regulatory proceedings during the past five years are attached in Exhibit IEc-1.

Q. Please describe your assignment in this matter.

A. OSBA requested that I review the transaction proposed in this proceeding from an economic and regulatory standpoint, and evaluate whether the transaction provides a benefit to small business ratepayers. I also advance certain anticipated OSBA legal positions in this testimony.

Q. Please provide a brief background to and summary of the proposed transaction.

A. UGI Corporation ("UGI") is a holding company with a number of regulated utility and non-regulated subsidiaries. One subsidiary is UGI Utilities, Inc. ("UGIU"), which has two divisions namely the Gas Division ("UGI Gas") and the Electric Division ("UGI Electric"). UGIU currently maintains separate revenue and cost records for the two operating divisions, and would continue to do so after the proposed transaction.

Over the past decade, UGI has acquired other Pennsylvania natural gas distribution companies ("NGDCs"), including UGI Penn Natural Gas, Inc. ("PNG") (formerly the PG

Energy Division of the Southern Union Company) in 2006, and UGI Central Penn Gas ("CPG") (formerly PPL Gas Utilities Corporation) in 2008. Both of these companies are currently separate subsidiaries of UGIU, along with a variety of other non-regulated entities.[1]

The application in this matter is brought by UGIU, PNG and CPG (collectively, "Applicants").

The Applicants propose to reorganize such that PNG and CPG would be merged into UGIU, and would be combined with the existing UGI Gas into a new, larger UGIU Gas Division. In effect, there is no change in the ultimate control of these NGDCs, as they will continue to be wholly owned by both UGI Corporation and UGIU. The resulting UGIU Gas Division would be a single utility, although it would (at least in the near term) retain three separate "rate districts" that are aligned with the existing separate NGDCs, as follows:

PNG -----> UGI North
CPG ------> UGI Central
UGI Gas ------> UGI South

Pending future regulatory approval, the combined company would continue to file numerous regulatory documents for each of the rate districts, notably including purchased gas cost ("PGC") filings, energy efficiency and conservation ("EE&C") programs, universal service budgets and targets, Long-Term Infrastructure Improvement Programs ("LTIIPs") and Distribution System Improvement Charges ("DSICs").[2]

However, from a utility cost perspective, my understanding is that the rate base, operating costs, administrative costs, and financing costs would all be combined for the three natural gas distribution rate districts, although the costs for UGI Electric would remain

[1] See Application, Appendix H.

[2] See Application at page 11, paragraph 40. While paragraph 40 indicates that the combined entity will continue to file separate LTIIPs, paragraph 43 appears to indicate that it will cease to do so upon approval of the merger. The Application also indicates that the DSIC "reset" mechanism will be calculated on an aggregate basis for the combined entity, apparently because the combined company does not intend to track return on equity by rate district. See OSBA-I-4(a).

separate.[3] Revenues would continue to be separately tracked for each rate district (and of course by customer and rate class), although rates and tariffs would be harmonized as quickly as possible, subject to considerations of rate stability and gradualism. While UGIU would continue to track certain costs and other regulatory matters by rate district, approval of this merger will mean that such separate treatment will be phased out as quickly as practicable, and the new UGIU Gas Division will be a single, separate NGDC. However, UGI Electric will remain a separate division of UGIU.[4]

Q. What is your understanding of the legal requirements associated with this transaction?

A. Counsel advises that it is well-established in Pennsylvania that:

> [A] certificate of public convenience approving a merger is not to be granted unless the Commission is able to find affirmatively that public benefit will result from the merger … [T]hose seeking approval of a utility merger [are required to] demonstrate more than the mere absence of any adverse effect upon the public … [T]he proponents of a merger [are required to] demonstrate that the merger will affirmatively promote the 'service accommodation, convenience, or safety of the public' in some substantial way.
>
> City of York v. Pennsylvania Public Utility Commission, 449 Pa. 136, 141, 295 A.2d 825, 828 (Pa. 1972)

Through its ruling in *Popowsky v. Pennsylvania Public Utility Commission*, 594 Pa. 583, 937 A.2d 1040 (Pa. 2007), the Pennsylvania Supreme Court provided further guidance on the evidentiary findings the Commission is required to make before approving a merger. Specifically the Court opined that:

> the appropriate legal framework requires a reviewing court to determine whether substantial evidence supports the Commission's finding that a merger will affirmatively promote the service, accommodation, convenience, or safety of the public in some substantial way. In conducting the underlying inquiry, the Commission is not required to secure legally binding commitments or to quantify benefits where this may be impractical, burdensome, or impossible; rather, the PUC properly applies a preponderance of the evidence standard to make factually-based determinations (including

[3] See OSBA-I-1 and OSBA-I-7.

[4] See OSBA-I-3.

predictive ones informed by expert judgment) concerning certification matters.[5]

In other words, the Applicant is required to prove the likelihood of "substantial" affirmative public benefits and to do so by a preponderance of the evidence.

Counsel further advises that in both City of York and Popowsky, the Supreme Court concluded that there was substantial evidence to support the Commission's finding that the proposed transaction would provide affirmative public benefits. The Supreme Court did not hold that it would have been erroneous if the Commission had found that the benefits (although proven by a preponderance of the evidence) were not "substantial" and, therefore, did not justify approval of the transaction. In other words, even if the Commission finds that a transaction would yield affirmative public benefits, the Commission may only approve that transaction if it finds that the benefits would be substantial.

Counsel also advises that the Commission may approve a merger that would not meet the City of York standard only if the Commission imposes conditions that are adequate to provide substantial public benefits. Specifically, under Section 1103(a), "[t]he commission, in granting such certificate [of public convenience], may impose such conditions as it may deem to be just and reasonable." Consistent with Section 1103(a), the Commission has held that "[i]n order to ensure that a proposed merger is in the 'public interest,' the Commission may impose conditions on its granting of the certificate of public convenience." *Joint Application for Approval of the Merger of GPU, Inc. with FirstEnergy Corp.*, Docket No. A-110300F0095, 2001 Pa. PUC Lexis 23 (Order entered June 20, 2001).

Finally, counsel advises that even when the Commission finds that such benefits exist, it also has discretion to impose merger conditions which it deems to be just and reasonable. Specifically, in *Popowsky*, the Pennsylvania Supreme Court applied Section 1103(a) in deciding the appeal of the Commission's decision regarding the Verizon/MCI merger. The Supreme Court stated that

[5] *Popowsky*, 937 A.2d at 1057.

> [W]hile in some circumstances conditions may be necessary to satisfy the Commission that public benefit sufficient to meet the requirement of Section 1103(a) will ensue, even where the PUC finds benefit in the first instance, Section 1103(a) also confers discretion upon the agency to impose conditions which it deems to be just and reasonable.

Q. Please summarize the affirmative public benefits claimed by the Applicants in this proceeding.

A. The Application cites to benefits in administrative, operational, capital, and regulatory efficiency. In terms of administrative efficiencies, the Applicants cite to eliminating the need to keep three separate sets of accounting, financial and tax statements, and a reduced need to track inter-company transactions.[6]

In terms of operational efficiencies, the Applicants indicate that the merger will help implement uniform operating practices, streamline management structure and allow for more cost-effective system reinforcement projects.[7]

The Applicants cite to capital efficiencies, although the benefits appear to be limited to those associated with the current need to service subsidiary loans.

The Applicants also claim Regulatory efficiencies in the form of consolidated Commission filings including PGC, DSIC, EE&C, and LTIIPs.

Q. Do you agree that there are substantial affirmative public benefits associated with the proposed merger?

A. In general, I do. I conclude that there are significant administrative and regulatory efficiencies associated with consolidating the regulatory filings, cost accounting and tax filings from merging three regulated utility companies into one. However, as proposed, it

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[6] See OSBA-I-8.

[7] See OSBA-I-9.

appears that a significant portion of the regulatory efficiencies will only be achieved if future Commission approval is granted.[8]

It is less clear to me that the operational efficiencies claimed by the Applicants would necessarily result from the merger, in that there is not clear evidence that they could not be achieved without the merger in the current configuration.[9] As the Applicants indicate, the overall company has made significant strides in achieving both greater efficiency and greater consistency across the three operating companies. Moreover, the capital benefits associated with internal loans appear to be minimal.[10]

Moreover, it is important to recognize that a large share of the administrative cost savings and other efficiencies can only be achieved if the combined company would no longer need to track all of its costs separately for each entity, and would be able to phase out the multiple duplicative regulatory filings that it must currently undertake.

Q. Will these benefits inure to ratepayers?

A. As proposed, the benefits will generally not flow to ratepayers until the next base rates case for the combined NGDC. At that time, the cost savings associated with administrative efficiencies will presumably be reflected in test year costs being lower than they otherwise would. Since base rates proceedings are not generally submitted unless a rate increase is required, the benefit to ratepayers will presumably take the form of a lower rate increase than would otherwise apply.

Q. Do you believe the merger will have a deleterious effect on competition for gas supply?

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[8] The Application is not entirely clear in this respect. The detailed list of separate filings to be maintained in the Application at paragraph 40 indicates that separate filings will continue pending future Commission approval of "further consolidation." The Applicants' response to OSBA-I-7(b) implies that many separate filings will cease immediately, and the others will be eliminated once rate harmonization is achieved.

[9] In response to OSBA-I-9, the Applicants generally point to administrative savings as part of the operational savings. The Applicants cite to a reduced need for metering between systems, which may provide modest benefits when full rate harmonization is achieved. In response to OSBA-I-10, the Applicants do not explain why reinforcement projects between existing service territories cannot be undertaken within the existing organizational structure.

[10] See OSBA-I-11.

A. I do not, as compared to the existing organizational structure. Any potential increase in the utility's competitive advantage associated with combining these companies has already been implicitly approved when UGIU was permitted to acquired PNG and CPG. As there is no change in control in this matter, there is no change in UGI's ability to exercise market power. It is also possible that the merger would facilitate further adoption of consistent practices across the three rate districts with respect to rules pertaining to competitive natural gas suppliers ("NGSs"), which may increase the ability of NGSs to compete.

Q. Should the Commission have any concerns about full consolidation of costs and regulatory filings?

A. Given the nature of the proposed merger, I believe the Commission should consider and evaluate cost differences across the three operating companies.

At present, a variety of different rates for the separate operating divisions are set based on the specific costs for each division. These differences are less severe than they might be, in that the Applicants have been in the process of harmonizing rate class definitions and class eligibility requirements over the past ten years, such that consolidation would generally not involve forcing customers to change rate classes. However, there are still a variety of different cost-based tariff charges, including (but probably not limited to) base distribution rates, purchased gas cost ("PGC") rates, distribution system improvement charges ("DSICS"), gas procurement charges ("GPCs"), merchant function charges ("MFCs"), energy efficiency and conservation ("EEC") riders (UGI Gas and PNG only), gas delivery enhancement ("GDE") riders, and purchase of receivables discounts (UGI Gas only).[11] Each of these tariff charges reflects the specific costs for the individual operating entity, as well as other rate design considerations specific to each.

If the combined NGDC moves quickly to consolidated cost accounting, there will no longer be cost bases for differentiating these rates. Thus, the Applicants propose that the rates for the three companies be harmonized, with the only restriction being that such

[11] See OSBA-I-1 and OSBA-I-2.

harmonizing may need to be phased in over time in order to avoid undue rate changes for any particular customer class or customer.

But make no mistake about it – approving the merger as proposed will necessarily mean that rates for the three divisions will be harmonized, since no cost basis will continue to exist by which differentials could be derived.[12] After this proceeding, there will be no opportunity for a party to appear before the Commission and argue, for example, that the operating costs at PNG (UGI North) justify lower rates than for CPG (UGI Central).

Thus, much of the public benefits associated with the proposed transaction can be achieved only as long as the Commission is convinced that combining the three separate utilities into a single company and that harmonizing all of the rates is in the public interest.

Q. **In your experience, do regulators require NGDCs to maintain separate rates for separate geographical areas?**

A. In some cases they do. In general, however, "postage stamp" pricing where the rates are the same across a utility's service area are more common.

Q. **Have the Applicants provided any comparison of costs across the three entities?**

A. No. The Applicants' position appears to be that rate harmonization is appropriate for the merged entity regardless of the cost differentials. Thus, in their view, the issue is not *whether* rates should be harmonized by only *how fast* rates can be reasonably harmonized.

Q. **Have you attempted to review the current cost and rate differentials between entities?**

A. I have compiled some basic cost information from my records for each of the Applicants' most recent base rates cases. I have also compiled a comparison of rates and revenues, using billing determinants from the most recent base rates proceeding. In so doing, I have compared costs and rates by rate class, for the Rate R, N and DS classes, which

[12] See OSBA-I-1(a).

account for the vast majority of customers.[13] It is necessary to conduct these comparisons on a rate class basis, since cost to serve can vary considerably by class, and differences in the "mix" of customers can affect overall averages. For example, PNG has one extremely large industrial customer with a relatively low cost to serve, and including the revenues and costs from that customer in the averages would distort the comparisons. However, the cost and rate comparisons that I compiled come from different time periods and therefore are based on different cost assumptions for such items as corporate costs, labor rates, information systems costs, and rate of return.

These comparisons are shown in Exhibit IEc-2, and discussed below.

Q. Please describe the rate comparison that you performed.

A. For each current NGDC, for each rate class (R, N, DS), I compiled current base rates and PGC charges. (Rate DS is transportation service, and thus the PGC charge does not apply.) For base rates, I included only the current customer and distribution charges (including the two block charges for Rate D). In so doing, I applied the current DSIC rate to the distribution charges, and the MFC and GPC to the PGC rates. I then constructed a proof of revenues analysis based on billing determinants from my records from each NGDC's last base rates case. Finally, I compiled a harmonized rate based on the sum of revenues and the sum of billing determinants for each NGDC. In effect, the harmonized rate would produce the same total revenues across the three NGDCs as would the current rates.

Using this analysis, I then compared the revenues under current rates and the revenues under harmonized rates for each NGDC, to show the relative changes in revenues that would occur if rates were harmonized. I made this comparison for base rates alone, and for base rates plus PGC. The details are shown in Exhibit IEc-2. The implied percentage rate changes are shown in Tables IEc-1 below.

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[13] Also, rates for the largest customers in the LFD and XD classes are difficult to compare, due to non-cost differences related to interruptibility, negotiated flex rates, and direct assignment costing.

Table IEc-1 Estimated Class Average Rate Changes to Harmonized Rates			
	CPG	**PNG**	**UGI Gas**
Base Rates Only			
Rate R	-33.0%	1.6%	11.2%
Rate N	-11.8%	14.0%	-2.8%
Rate DS	-5.8%	40.4%	-23.7%
Sub-Total	-26.8%	6.7%	4.2%
Base Rates Plus PGC			
Rate R	-19.1%	7.2%	0.6%
Rate N	-12.7%	14.3%	-2.8%
Rate DS*	-5.8%	40.4%	-23.7%
Sub-Total	-17.0%	10.0%	-1.4%

* Transportation service, no PGC included.
Source: Exhibit IEc-2

Regarding Rate R, Table IEc-1 generally shows that CPG Residential rates would be substantially reduced as a result of moving to harmonized rates. However, because CPG has by far the lowest overall volume, these large rate reductions are generally offset by more modest increases at the other entities, although the increases for UGI Gas (base rates) and PNG (base plus PGC) are still reasonably significant. While the Company implies that the harmonization effects of PGC rates and base rates would tend to offset, this analysis suggests that any beneficial impact is relatively modest for the residential class, and non-existent for the other classes.[14]

For Rate N, harmonizing rates would require a significant reduction at CPG and a significant increase at PNG, on both a base rates and combined basis.

[14] See OSBA-I-1(b).

For Rate DS, the impacts are more extreme, with a large rate decrease at UGI, a small decrease for CPG, and a giant rate increase for PNG. (Note the percentage values are the same, since Rate DS is transportation service.) Of the class implications that I reviewed, Rate DS appears to be the most problematic from a rate harmonization standpoint.

Overall, for these three rate classes, CPG customers would benefit substantially, PNG customers would be negatively impacted, and UGI Gas customers would face modest base rate increases mostly offset by reductions in PGC rates.

Q. Have you attempted to make similar calculations regarding costs?

A. I have, although I fear the calculations have only limited value. Based on my workpapers from previous base rates proceedings, I derived each Company's filed-for allocated per-mcf costs for these three rate classes. I then calculated implied total costs using the same billing determinants as in my revenue analysis, and again calculated the percentage difference between NGDC cost and average cost. The results are shown in Table IEc-2 below.

Table IEc-2
Estimated Unit Cost Differences to Combined Costs

	CPG	PNG	UGI Gas
Base Rates Only			
Rate R	-18.9%	16.8%	-4.7%
Rate N	-18.3%	10.4%	0.0%
Rate DS	-30.6%	1.8%	14.6%
Sub-Total	-19.5%	14.6%	-2.9%

Note: A positive value implies that the single NGDC costs are lower than the combined average, and would need to be increased to be at average.
Source: Exhibit IEc-2

Table IEc-2 shows a pattern that is somewhat similar to that shown in Table IEc-1, but with some significant differences. I believe that these differences reflect the relative cost recovery for the various classes. For example, the UGI Gas Rate R class would see a material base rate increase in moving to harmonized rates, but its allocated costs are somewhat higher than average, implying that UGI Gas Rate R customers have a relative under-recovery of allocated costs. Moreover, there are many reasons why this comparison is imperfect, no least of which is that these cost values were derived in different base rates proceedings at different times with different underlying cost assumptions.

Nevertheless, the overall pattern suggests that the CPG rates are higher than those at the other NGDCs generally because the costs are higher.

Q. Are the cost differences sufficiently large that the Commission should reject the Applicants' proposal that rates eventually be harmonized as a condition for the merger?

A. I cannot provide a firm answer to this question at this time. First, this is more a matter of the regulator's judgement than that of an independent expert. Second, the Company has not presented any cost justification of the reasonableness of harmonizing rates, and the cost information available to me is dated and does not reflect consistent assumptions across the companies.

Given those uncertainties, there may be merit in deferring a decision on that issue until such time as the relative costs can be more carefully evaluated. That is, the Commission may wish to consider approving the merger, but also require the combined company to submit separate revenue requirement and cost allocation information for each rate district in its initial base rates case. This would allow the Commission to compare unit costs on a class-by-class basis using consistent costing principles and assumptions, to be able to clearly evaluate whether harmonizing rates is reasonable. If the Commission then determines that moving to harmonizing rates would not result in unreasonable cross-subsidization, the combined company could then dispense with separate tracking of all aspects of the revenue requirement, and it would be then be able to achieve much of the cost savings contemplated in the application. If, however, the Commission determines that rate harmonization would not be reasonable, the combined company would need to continue to segregate costs.

Q. Does OSBA have a legal position on this issue?

A. I am advised by counsel that OSBA has tentatively concluded that the Applicants have not met their burden for showing that combining costs and implicitly requiring that rates be harmonized as a condition of the merger are reasonable, prudent, and in the public interest. I am further advised that OSBA has not concluded whether this inadequacy can be best addressed by rejecting the application, further submissions by the Applicants in this proceeding, or by a cost review in the first base rates proceeding for the combined company.

Q. Does this conclude your direct testimony?

A. Yes, it does.

EXHIBIT IEc-1

RÉSUMÉ AND EXPERT TESTIMONY LIST

FOR

ROBERT D. KNECHT

Overview

Mr. Knecht has more than 35 years of practical economic consulting experience, focusing on the energy, utility, metals and mining industries. For the past 25 years, Mr. Knecht's practice has primarily involved providing analysis, consulting support and expert testimony in regulatory matters, primarily involving electric and natural gas utilities. Mr. Knecht's work includes many aspects of utility regulation, including industry restructuring, cost unbundling, cost allocation, rate design, rate of return, customer contributions, energy efficiency programs, smart metering programs, treatment of stranded costs and utility revenue requirement issues. He has worked for state advocacy agencies, industrial customer groups, law firms, regulatory agencies, government agencies and utilities, in both the United States and Canada. He has provided expert testimony in more than one hundred separate utility proceedings.

In addition to his work with regulated utilities, Mr. Knecht has consulted on international industry restructuring studies, prepared economic policy analyses, participated in a variety of litigation matters involving economic damages, and developed energy industry forecasting models.

Education

Master of Science, Management (Applied Economics and Finance), Sloan School of Management, M.I.T.

Bachelor of Science, Economics, Massachusetts Institute of Technology

Select Project Experience

For more than twenty years, Mr. Knecht has provided consulting services, analysis and expert testimony before the Pennsylvania Public Utility Commission on all manner of regulatory proceedings to the **Pennsylvania Office of Small Business Advocate**. In addition to expert testimony, Mr. Knecht has assisted OSBA with the development of public policy positions, litigation strategy, and longer term strategy.

For the **Industrial Gas Users Association**, Mr. Knecht provided consulting and expert witness services in a generic cost allocation proceeding involving Gaz Métro before the Régie de l'énergie in Québec.

For the **New Brunswick Public Intervener**, Mr. Knecht provides consulting and expert witness services in a variety of regulatory proceeding before the New Brunswick Energy and Utilities Board involving New Brunswick Power, Enbridge Gas New Brunswick, and petroleum products. Mr. Knecht has addressed issues of load forecasting, costs forecasting, cost of capital, allocation of corporate overhead costs, utility cost allocation, revenue allocation, market-based rate design, cost-based rate design, and rate decoupling.

For **l'Association québécoise des consommateurs industriels d'électricité (AQCIE) and le Conseil de l'industrie forestière du Québec (CIFQ)**, Mr. Knecht provided analysis, consulting advice and expert testimony before the Régie de l'énergie in regulatory matters involving Hydro Québec Distribution and TransÉnergie. This work includes revenue requirement, power purchasing, cost allocation, treatment of cross-subsidies, and rate design.

For the **Independent Power Producers Society of Alberta**, Mr. Knecht provided consulting advice, analysis and expert testimony before the Alberta Energy and Utilities Board in a series of proceedings involving the restructuring of the electric utility industry, the unbundling of rates, and the development of transmission rates.

ROBERT D. KNECHT

EXPERT TESTIMONY SUBMITTED IN REGULATORY PROCEEDINGS: 2012-2017

DOCKET #	REGULATOR	UTILITY	DATE	CLIENT	TOPICS
R-2016-2580030	Pennsylvania Public Utility Commission	UGI Penn Natural Gas	April 2017	Pennsylvania Office of Small Business Advocate	Test year, load forecast, O&M expenses, rate base, rate of return, cost allocation, rate design, EE&C program, capacity assignment
Matter 336	New Brunswick Energy & Utilities Board	New Brunswick Power	January 2017	New Brunswick Public Intervener	Financial forecast, equity requirement, depreciation life, variance mechanisms, cost allocation, rate design
Matter 338	New Brunswick Energy & Utilities Board	Generic	December 2016	New Brunswick Public Intervener	Retail petroleum margins
Matter 330	New Brunswick Energy & Utilities Board	Enbridge Gas New Brunswick	September 2016	New Brunswick Public Intervener	Revenue requirement, investment test, customer retention initiatives, cost allocation, rate design
R-2016-2537359	Pennsylvania Public Utility Commission	West Penn Power Company	July 2016	Pennsylvania Office of Small Business Advocate	Cost allocation, revenue allocation, rate design.
R-2016-2537355	Pennsylvania Public Utility Commission	Pennsylvania Power Company	July 2016	Pennsylvania Office of Small Business Advocate	Cost allocation, revenue allocation, rate design.
P-2016-2537609, 2537594	Pennsylvania Public Utility Commission	UGI Central Penn Gas, UGI Penn Natural Gas	July 2016	Pennsylvania Office of Small Business Advocate	Waiver of DSIC cap.
P-2016-2543523	Pennsylvania Public Utility Commission	UGI Utilities, Inc., Electric Division	July 2016	Pennsylvania Office of Small Business Advocate	Default service procurement.
R-2016-2529660	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania, Inc.	June 2016	Pennsylvania Office of Small Business Advocate	Cost allocation, revenue allocation, rate design.
R-2015-2469275	Pennsylvania Public Utility Commission	PPL Electric Utilities Corporation	May 2016	Pennsylvania Office of Small Business Advocate	Default service procurement plan.
R-2015-2518438	Pennsylvania Public Utility Commission	UGI Utilities, Inc., Gas Division	April 2016	Pennsylvania Office of Small Business Advocate	Cost allocation, revenue allocation, rate design, energy efficiency and conservation program.

ROBERT D. KNECHT

EXPERT TESTIMONY SUBMITTED IN REGULATORY PROCEEDINGS: 2012-2017

DOCKET #	REGULATOR	UTILITY	DATE	CLIENT	TOPICS
P-2016-2521993	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania, Inc.	April 2016	Pennsylvania Office of Small Business Advocate	Waiver of DSIC cap.
M-2015-2477174	Pennsylvania Public Utility Commission	UGI Utilities, Inc., Electric Division	February 2016	Pennsylvania Office of Small Business Advocate	Energy efficiency and conservation plan review and development.
Matter No. 306	New Brunswick Energy & Utilities Board	Enbridge Gas New Brunswick	February 2016	New Brunswick Public Intervenor	Financial review, investment prudence, revenue requirement, cost allocation, rate design, market-based pricing.
P-2015-2511333, 2511351, 2511355, 2511356	Pennsylvania Public Utility Commission	Metropolitan Edison, Pennsylvania Electric, Pennsylvania Power, West Penn Power	January 2016	Pennsylvania Office of Small Business Advocate	Default service procurement plans, purchase of receivables.
P-2015-2501500	Pennsylvania Public Utility Commission	Philadelphia Gas Works	October 2015	Pennsylvania Office of Small Business Advocate	DSIC rate design under cash flow regulation, capital structure
P-2014-2459362	Pennsylvania Public Utility Commission	Philadelphia Gas Works	June 2015	Pennsylvania Office of Small Business Advocate	Demand side management programs, rate decoupling mechanism, incentive mechanism, cost-benefit analysis.
R-2015-2469275	Pennsylvania Public Utility Commission	PPL Electric Utilities	June 2015	Pennsylvania Office of Small Business Advocate	Misc. revenue requirement issues, cost allocation, rate design
R-2015-2468056	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania	June 2015	Pennsylvania Office of Small Business Advocate	Cost allocation, revenue allocation, rate design, customer contribution policy
R-2015-2461373	Pennsylvania Public Utility Commission	National Fuel Gas Distribution	April 2015	Pennsylvania Office of Small Business Advocate	Load balancing rates, reconciliation
R-2014-2456648	Pennsylvania Public Utility Commission	Peoples TWP LLP	March 2015	Pennsylvania Office of Small Business Advocate	Load balancing rates, reconciliation
R-3867-2013	Régie de l'énergie, Québec	Société en commandite Gaz Métro	February 2015	l'Association des Consommateurs de Gaz	Distribution cost allocation

ROBERT D. KNECHT

EXPERT TESTIMONY SUBMITTED IN REGULATORY PROCEEDINGS: 2012-2017

DOCKET #	REGULATOR	UTILITY	DATE	CLIENT	TOPICS
R-3888-2014	Régie de l'énergie, Québec	Hydro Québec TransÉnergie	December 2014	AQCIE/CIFQ	Transmission customer contribution policy
R-2014-2428744 R-2014-2428742	Pennsylvania Public Utility Commission	Pennsylvania Power Company, West Penn Power Company	November 2014	Pennsylvania Office of Small Business Advocate	Cost allocation, revenue allocation, rate design
M-2014-2430781	Pennsylvania Public Utility Commission	PPL Electric Utilities	October 2014	Pennsylvania Office of Small Business Advocate	Smart meter procurement, rate design
Matter No. 253	New Brunswick Energy & Utilities Board	Enbridge Gas New Brunswick	September 2014	New Brunswick Public Intervenor	Financial review, investment prudence, revenue requirement, cost allocation, rate design, market-based pricing.
P-2014-2417907	Pennsylvania Public Utility Commission	PPL Electric Utilities	July 2014	Pennsylvania Office of Small Business Advocate	Default service procurement, class eligibility, reconciliation
R-2014-2406274	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania	June 2014	Pennsylvania Office of Small Business Advocate	Cost allocation, revenue allocation, rate design
R-2014-2407345	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania	June 2014	Pennsylvania Office of Small Business Advocate	Customer contribution policy, alternative financing mechanism
R-2014-2408268	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania	May 2014	Pennsylvania Office of Small Business Advocate	Gas procurement sharing mechanism, cost allocation
R-2014-2397237	Pennsylvania Public Utility Commission	Pike County Light & Power (Electric)	April 2014	Pennsylvania Office of Small Business Advocate	Cost allocation, revenue allocation, rate design
R-2014-2397353	Pennsylvania Public Utility Commission	Pike County Light & Power (Gas)	April 2014	Pennsylvania Office of Small Business Advocate	Cost allocation, revenue allocation
R-2014-2399598	Pennsylvania Public Utility Commission	Peoples TW Phillips	March 2014	Pennsylvania Office of Small Business Advocate	Gas procurement, design day demand, cost allocation rate design, retainage
P-2013-2389572 (Remand)	Pennsylvania Public Utility Commission	PPL Electric Utilities	February 2014	Pennsylvania Office of Small Business Advocate	Time of use rates, net metering rates

ROBERT D. KNECHT

EXPERT TESTIMONY SUBMITTED IN REGULATORY PROCEEDINGS: 2012-2017

DOCKET #	REGULATOR	UTILITY	DATE	CLIENT	TOPICS
Matter 225	New Brunswick Energy & Utilities Board	Enbridge Gas New Brunswick	January 2014	New Brunswick Public Intervenor	Financial review, investment prudence, revenue requirement, cost allocation, rate design, market-based pricing.
P-2013-2391368, P-2013-2391372, P-2013-2391375, P-2013-2391378	Pennsylvania Public Utility Commission	Metropolitan Edison, Pennsylvania Electric, Pennsylvania Power, West Penn Power	January 2014	Pennsylvania Office of Small Business Advocate	Default service procurement, cost allocation, rate design
Matter No. 214	New Brunswick Energy & Utilities Board	Generic	November 2013	New Brunswick Public Intervenor	Maximum retail margins for motor fuel and residential heating oil.
Matter No. 171	New Brunswick Energy & Utilities Board	New Brunswick Power	September 2013	New Brunswick Public Intervenor	Amortization method for deferral costs associated with refurbishing Point Lepreau Generating Station
C-2013-2367475	Pennsylvania Public Utility Commission	PPL Electric Utilities	August 2013	Pennsylvania Office of Small Business Advocate	Forecasting and reconciliation of default service electric costs and revenues.
P-2011-2277868, I-2012-2320323	Pennsylvania Public Utility Commission	Generic	August 2013	Pennsylvania Office of Small Business Advocate	Ratemaking treatment for customers in overlapping NGDC service territories ("gas-on-gas").
P-2013-2356232	Pennsylvania Public Utility Commission	UGI Central Penn Gas, UGI Penn Natural Gas, UGI Utilities (Gas Division)	July 2013	Pennsylvania Office of Small Business Advocate	Program design, cost recovery and rate design for alternative system expansion financing pilot program ("GET Gas")
R-2013-2355886	Pennsylvania Public Utility Commission	Peoples TWP LLC	July 2013	Pennsylvania Office of Small Business Advocate	Cost allocation, revenue allocation, rate design
R-2013-2361764, R-2013-2361763, R-2013-2361771	Pennsylvania Public Utility Commission	UGI Central Penn Gas, UGI Penn Natural Gas, UGI Utilities (Gas Division)	July 2013	Pennsylvania Office of Small Business Advocate	Unaccounted-for gas.

ROBERT D. KNECHT

EXPERT TESTIMONY SUBMITTED IN REGULATORY PROCEEDINGS: 2012-2017

DOCKET #	REGULATOR	UTILITY	DATE	CLIENT	TOPICS
Matter No. 178	New Brunswick Energy & Utilities Board	Enbridge Gas New Brunswick	July 2012	NB Public Intervenor	System expansion economic test, test year revenue requirement, cost allocation, rate design, treatment of stranded costs.
R-2012-2290597	Pennsylvania Public Utility Commission	PPL Electric Utilities	June 2012	Pennsylvania Office of Small Business Advocate	Cost allocation, revenue allocation, rate design
R-2012-2293303	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania	May 2012	Pennsylvania Office of Small Business Advocate	Treatment of pipeline credits
AUC ID #1633	Alberta Utilities Commission	Alberta Electric System Operator	April 2012	Powerex, Northpoint Energy Solutions, Cargill	Economic efficiency issues for allocation of constrained transmission capacity.
R-2012-2286447	Pennsylvania Public Utility Commission	Philadelphia Gas Works	April 2012	Pennsylvania Office of Small Business Advocate	Unaccounted-for gas retainage, reconciliation
R-2012-2281465	Pennsylvania Public Utility Commission	National Fuel Gas Distribution	March 2012	Pennsylvania Office of Small Business Advocate	Unaccounted-for gas retainage, gas price procurement and hedging
R-2011-2273539	Pennsylvania Public Utility Commission	Peoples TWP	March 2012	Pennsylvania Office of Small Business Advocate	Design day demand methodology
P-2011-2273650 P-2011-2273668 P-2011-2273669 P-2011-2273670	Pennsylvania Public Utility Commission	Metropolitan Edison, Pennsylvania Electric, Penn Power, West Penn Power	February 2012	Pennsylvania Office of Small Business Advocate	Default service procurement, retail market enhancement, rate design.
R-2011-2264771	Pennsylvania Public Utility Commission	PPL Electric Utilities	January 2012	Pennsylvania Office of Small Business Advocate	TOU Rates

***Note:** Dates shown reflect submission date for direct testimony.*

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EXHIBIT IEc-2

RDK WORKPAPERS FOR PROOF OF REVENUE

AND UNIT COST ANALYSIS

Exhibit IEc-2

UGI Companies' PGC Comparison ($/mcf except as noted)

	UGI CPG*	UGI PNG**	UGI
1-Dec-00	5.9023	6.4844	6.8045
1-Mar-01	8.6101	6.9226	9.2134
1-Jun-01	7.4576	7.9892	9.2134
1-Sep-01	7.2366	7.9613	8.5434
1-Dec-01	6.7786	5.7735	5.5462
1-Mar-02	6.1802	5.7106	5.5462
1-Jun-02	6.1370	6.4606	6.6262
1-Sep-02	6.1809	5.8990	6.6262
1-Dec-02	5.4317	5.7793	6.4441
1-Mar-03	6.6286	7.4139	8.5641
10-Apr-03	6.6286	6.8421	8.5641
1-Jun-03	6.5992	7.0302	7.7441
1-Aug-03	6.5992	7.0302	5.7041
1-Sep-03	6.4236	7.2557	5.7041
1-Dec-03	6.9788	7.1880	7.5947
1-Mar-04	7.7653	7.6167	8.5152
1-Jun-04	7.4121	8.5905	8.9952
1-Sep-04	7.4121	8.5905	8.9952
1-Dec-04	8.0411	8.2788	9.2750
1-Mar-05	8.6561	7.6532	9.2750
1-Jun-05	8.3786	8.7428	9.8281
1-Sep-05	10.1391	12.0749	11.9881
1-Dec-05	14.2468	12.1297	13.6240
10-Feb-06	14.2468	11.1897	13.0980
1-Mar-06	14.1224	10.9397	13.0980
7-Apr-06	14.1224	10.9397	12.7180
1-Jun-06	13.8132	10.1284	12.3980
1-Sep-06	12.9196	9.7652	12.0480
1-Dec-06	10.9294	9.0672	10.8931
1-Mar-07	10.9294	9.0672	10.8931
1-Jun-07	10.9294	10.3757	11.4847
1-Sep-07	10.5244	10.3757	11.4847
1-Dec-07	9.6277	10.2420	11.2370
1-Mar-08	10.3737	10.6620	11.7870
1-Jun-08	11.4507	11.6820	13.2610
1-Sep-08	13.3067	11.6820	13.2610
1-Dec-08	12.0919	11.1873	10.8186
1-Mar-09	10.0046	10.3977	9.8844
1-Jun-09	8.5694	10.3977	9.8844
1-Sep-09	7.1469	10.3977	9.8844

	UGI CPG*	UGI PNG**	UGI
1-Dec-09	7.1469	8.2522	9.4690
1-Mar-10	8.3192	8.2522	9.4690
1-Jun-10	7.2793	7.0834	9.1580
1-Sep-10	7.2793	7.0834	9.1580
1-Dec-10	5.7861	6.3871	8.0108
1-Mar-11	5.7861	6.3871	8.0108
1-Jun-11	6.5216	6.7640	8.4888
1-Sep-11	6.5216	6.7640	8.4888
1-Dec-11	5.6899	5.6654	6.8481
1-Mar-12	5.3934	5.2183	6.3842
1-Jun-12	5.3934	5.2183	6.3842
1-Sep-12	5.3934	5.2183	6.3842
1-Dec-12	5.0282	5.1151	5.9930
1-Mar-13	5.0282	5.1151	5.9930
1-Jun-13	5.9342	5.5450	6.7051
1-Sep-13	5.5173	5.5450	6.7051
1-Dec-13	5.1650	4.8923	6.0324
1-Mar-14	5.1650	5.2009	6.0324
1-Jun-14	5.1650	5.7838	6.4350
1-Sep-14	5.1650	5.7838	6.4350
1-Dec-14	4.1704	5.5001	5.9394
1-Mar-15	3.5980	5.2667	5.5663
1-Jun-15	3.4081	4.2187	4.8547
1-Sep-15	3.4081	4.2187	4.8547
1-Dec-15	3.0415	3.1640	4.2662
1-Mar-16	3.0415	2.7202	4.2662
1-Jun-16	3.0415	3.0248	4.2662
1-Sep-16	3.0415	3.7154	5.0009
1-Dec-16	3.1700	3.1546	5.0590
1-Mar-17	3.9625	3.3967	5.2012
1-Jun-17	4.9531	4.2459	6.5015
1-Sep-17	4.9531	4.2459	6.5015
1-Dec-17	4.6662	3.9816	6.2161
1-Mar-18	4.6662	3.9816	6.2161
1-Jun-18	4.3348	3.9816	5.8921

Notes:

UGI Rate for September 2016 is not consistent in PUC report.

UGI Value for 1 March 2006 is Interim April 7 2006

* PFG from 2000 to 2005, PPL Gas from 2005 to 2008

* Dth pricing adjusted @ 1.04 Dth/mcf prior to Dec. 1, 2014.

** PG Energy from 2000 to 2006

	PFG/PPL/CPG Dth Pricing		
1-Dec-00	5.6753	31-Mar-00	6.8720
1-Mar-01	8.2789	29-Jun-00	7.9992
1-Jun-01	7.1708	29-Sep-00	6.9993
1-Sep-01	6.9583	30-Dec-00	6.9993
1-Dec-01	6.5179	31-Mar-01	5.5636
1-Mar-02	5.9425	29-Jun-01	5.5636
1-Jun-02	5.9010	29-Sep-01	6.2708
1-Sep-02	5.9432	30-Dec-01	6.2708
1-Dec-02	5.2228	31-Mar-02	5.4711
1-Mar-03	6.3737	30-Jun-02	5.1860
10-Apr-03	6.3737	30-Sep-02	5.1860
1-Jun-03	6.3454	31-Dec-02	5.1860
1-Aug-03	6.3454	1-Apr-03	4.8348
1-Sep-03	6.1765	30-Jun-03	4.8348
1-Dec-03	6.7104	30-Sep-03	5.7060
1-Mar-04	7.4666	31-Dec-03	5.3051
1-Jun-04	7.1270	31-Mar-04	4.9663
1-Sep-04	7.1270	29-Jun-04	4.9663
1-Dec-04	7.7318	29-Sep-04	4.9663
1-Mar-05	8.3232	30-Dec-04	4.9663
1-Jun-05	8.0563		
1-Sep-05	9.7491		
1-Dec-05	13.6988		
10-Feb-05	13.6988		
1-Mar-06	13.5792		
7-Apr-06	13.5792		
1-Jun-06	13.2819		
1-Sep-06	12.4227		
1-Dec-06	10.5090		
1-Mar-07	10.5090		
1-Jun-07	10.5090		
1-Sep-07	10.1196		
1-Dec-07	9.2574		
1-Mar-08	9.9747		
1-Jun-08	11.0103		
1-Sep-08	12.7949		
1-Dec-08	11.6268		
1-Mar-09	9.6198		
1-Jun-09	8.2398		
1-Sep-09	6.8720		

Source: http://www.puc.state.pa.us/NaturalGas/pdf/PGC.pdf

Updated for June 1, 2018 from utility tariffs

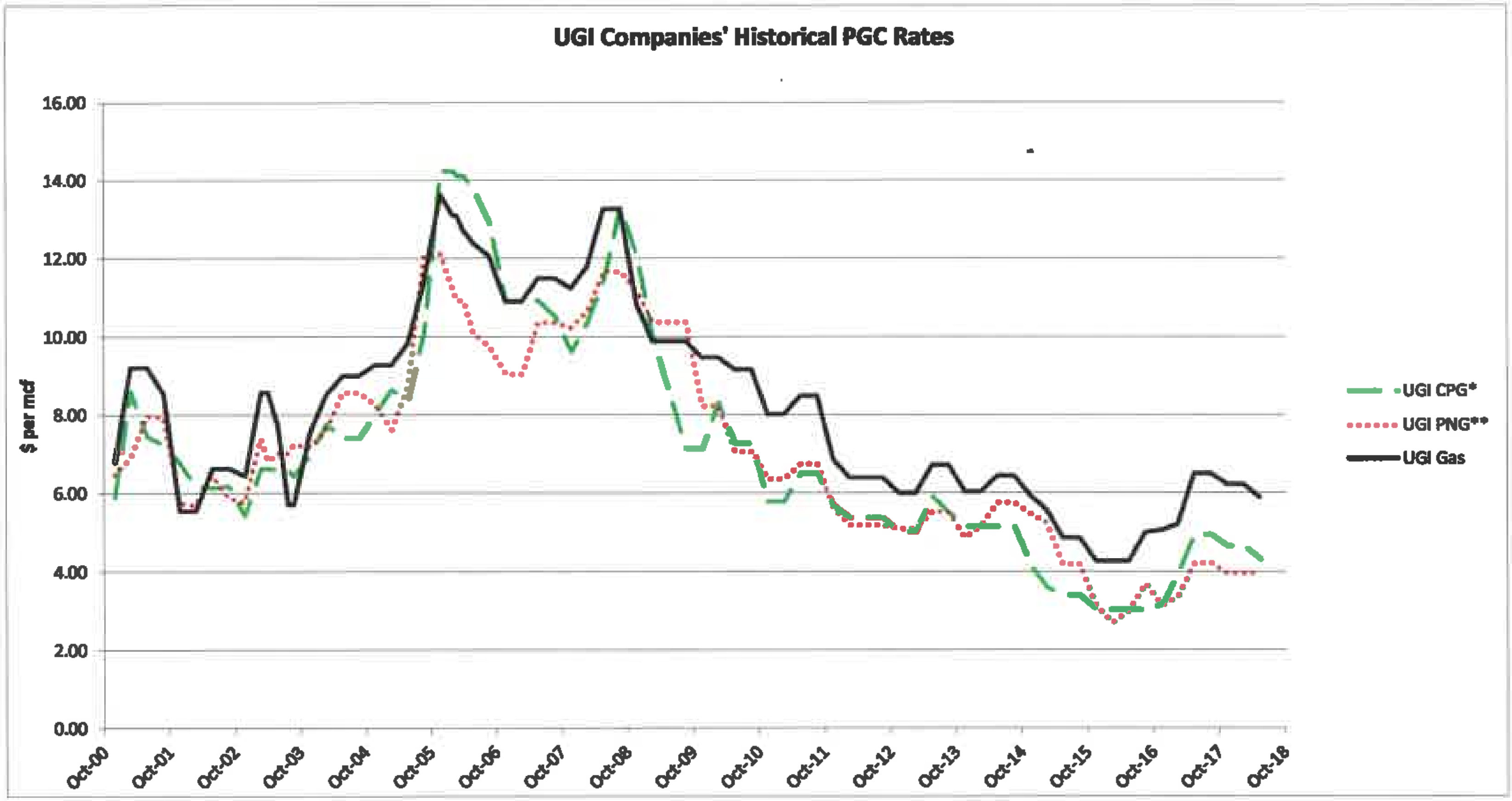

UGI Companies' Historical PGC Rates
$ per mcf
16.00
14.00
12.00
10.00
8.00
6.00
4.00
2.00
0.00
Oct-00
Oct-01
Oct-02
Oct-03
Oct-04
Oct-05
Oct-06
Oct-07
Oct-08
Oct-09
Oct-10
Oct-11
Oct-12
Oct-13
Oct-14
Oct-15
Oct-16
Oct-17
Oct-18
UGI CPG*
UGI PNG**
UGI Gas

Exhibit IEc-2

UGI Companies' Base Rate Comparison (from tariffs on web site 12 May 2018)

	UGI CPG	UGI PNG	UGI--Gas Div.
Rate R			
Customer Charge ($/month)	$14.60	$13.25	$11.75
Distribution Charge ($/mcf)	$5.7520	$4.0772	$2.9717
MFC (% of PGC)	2.26%	1.83%	2.19%
GPC ($/mcf)	$0.0400	$0.0420	$0.0900
EEC Rider ($/mcf)	--	$0.0760	$0.1659
DSIC ($ Dist'n Charges)	7.50%	0.69%	0.00%
Unit Cost*	$9.54	$6.62	$8.11
Rate N			
Customer Charge ($/month)	$30.40	$34.00	$16.00
Distribution Charge ($/mcf)	$3.2097	$2.5368	$3.6867
MFC (% of PGC)	0.14%	0.25%	0.36%
GPC ($/mcf)	$0.0400	$0.0420	$0.0900
EEC Rider ($/mcf)	--	$0.0339	$0.0138
DSIC ($ Dist'n Charges)	7.50%	0.69%	0.00%
Unit Cost*	$5.62	$4.16	$4.59
Rate DS			
Customer Charge ($/month)	$192.27	$229.00	$290.00
Dist'n Charge to 500 mcf ($/mcf)	$2.5772	$1.8488	$3.5383
Dist'n Charge over 500 mcf ($/mcf)	$2.5772	$1.8488	$3.0383
EEC Rider ($/mcf)	--	$0.0429	-$0.0587
GDE Rider ($/mcf)	$0.0061	$0.0025	$0.0000
DSIC ($ Dist'n Charges)	7.50%	0.69%	0.00%
Unit Cost*	$3.61	$2.47	$2.19

* RDK workpapers, Company allocated cost at Company proposed rates

Exhibit IEc-2

Impact of Harmonizing UGI District Rates: Rates R/RT, N/NT, DS

	Billing Determinants	Rate	Revenues ($000)	Percent to Harmonized
Rate R				
UGI CPG				
Customer Charge ($/month)	767,160	$15.70	12,041	-19.6%
Distribution Charge ($/mcf)	5,160,346	$6.1834	31,908	-39.1%
PGC Charge ($/mcf)	4,873,294	$4.4728	21,797	14.3%
Sub-Total Base Rates	5,160,346	$8.52	43,949	-33.0%
Total	5,160,346	$12.74	65,746	-19.1%
UGI PNG				
Customer Charge ($/month)	1,826,208	$13.34	24,364	-5.4%
Distribution Charge ($/mcf)	16,108,797	$4.1053	66,132	-8.3%
PGC Charge ($/mcf)	15,724,920	$4.0965	64,417	24.8%
Sub-Total Base Rates	16,108,797	$5.62	90,496	1.6%
Total	16,108,797	$9.62	154,913	7.2%
UGI Gas				
Customer Charge ($/month)	4,177,440	$11.75	49,085	7.5%
Distribution Charge ($/mcf)	22,744,148	$2.9717	67,589	26.6%
PGC Charge ($/mcf)	19,067,626	$6.1111	116,525	-16.4%
Sub-Total Base Rates	22,744,148	$5.13	116,674	11.2%
Total	22,744,148	$10.25	233,199	0.6%
Harmonized Rate R				
Customer Charge ($/month)	6,770,808	$12.63	85,490	0.0%
Distribution Charge ($/mcf)	44,019,291	$3.7632	165,629	0.0%
PGC Charge ($/mcf)	39,665,840	$5.1112	202,739	0.0%
Sub-Total Base Rates	44,019,291	$5.71	251,119	0.0%
Total	44,013,291	$10.31	453,857	0.0%
Rate N				
UGI CPG				
Customer Charge ($/month)	99,384	$32.68	3,248	-29.9%
Distribution Charge ($/mcf)	2,792,209	$3.4504	9,634	-2.9%
PGC Charge ($/mcf)	2,051,648	$4.3809	8,988	17.5%
Sub-Total Base Rates	2,792,209	$4.61	12,882	-11.8%
Total	2,792,209	$7.83	21,870	-12.7%
UGI PNG				
Customer Charge ($/month)	194,916	$34.29	6,673	-33.1%
Distribution Charge ($/mcf)	6,583,326	$2.5543	16,816	31.2%
PGC Charge ($/mcf)	3,940,642	$4.0336	15,895	27.7%
Sub-Total Base Rates	6,583,326	$3.57	23,489	14.0%
Total	6,583,326	$5.98	39,383	14.3%
UGI Gas				
Customer Charge ($/month)	460,728	$16.00	7,372	43.1%
Distribution Charge ($/mcf)	14,753,373	$3.6867	54,391	-9.1%
PGC Charge ($/mcf)	6,995,613	$6.0033	41,997	-14.2%
Sub-Total Base Rates	14,753,373	$4.19	61,763	-2.8%
Total	14,753,373	$7.03	103,760	-2.8%
Harmonized Rate N				
Customer Charge ($/month)	755,028	$22.90	17,292	0.0%
Distribution Charge ($/mcf)	24,128,902	$3.3504	80,841	0.0%
PGC Charge ($/mcf)	12,987,903	$5.1494	66,880	0.0%
Sub-Total Base Rates	24,128,902	$4.07	98,134	0.0%
Total	24,128,902	$6.84	165,013	0.0%
Rate DS				
UGI CPG				
Customer Charge ($/month)	2,568	$206.69	531	23.2%
Dist'n Charge to 500 mcf ($/mcf)	1,152,919	$2.7705	3,194	-6.2%
Dist'n Charge over 500 mcf ($/mcf)	0	$2.7705	0	-6.2%
Total	1,152,919	$3.23	3,725	-5.8%

Exhibit IEc-2

Impact of Harmonizing UGI District Rates: Rates R/RT, N/NT, DS

	Billing Determinants	Rate	Revenues ($000)	Percent to Harmonized
UGI PNG				
Customer Charge ($/month)	5,268	$230.58	1,215	10.5%
Dist'n Charge to 500 mcf ($/mcf)	3,955,641	$1.8616	7,364	39.6%
Dist'n Charge over 500 mcf ($/mcf)	0	$1.8616	0	39.6%
Total	3,955,641	$2.17	8,578	40.4%
UGI Gas				
Customer Charge ($/month)	7,104	$290.00	2,060	-12.2%
Dist'n Charge to 500 mcf ($/mcf)	2,420,486	$3.5383	8,564	-26.6%
Dist'n Charge over 500 mcf ($/mcf)	1,010,885	$3.0383	3,071	-14.5%
Total	3,431,371	$3.99	13,696	-23.7%
Harmonized Rate DS				
Customer Charge ($/month)	14,940	$254.73	3,806	0.0%
Dist'n Charge to 500 mcf ($/mcf)	7,529,046	$2.5988	19,122	0.0%
Dist'n Charge over 500 mcf ($/mcf)	1,010,885	$2.5988	3,071	0.0%
Total	8,539,931	$3.04	25,999	0.0%

Cost Impact Analysis	CPG	PNG	UGI Gas	Total
Rate R mcf	5,160,346	16,108,797	22,744,148	44,013,291
Rate N mcf	2,792,203	6,583,326	14,753,373	24,128,902
Rate DS mcf	1,152,919	3,955,641	3,431,371	8,539,931
Total mcf	9,105,468	26,647,764	40,928,892	76,682,124
Rate R $/mcf alloc cost	9.54	6.62	8.11	7.73
Rate N $/mcf alloc cost	5.62	4.16	4.59	4.59
Rate DS $/mcf alloc cost	3.61	2.47	2.19	2.51
Total $/mcf alloc cost	7.59	5.39	6.34	6.16
Rate R $mm alloc cost	49.23	106.63	184.48	340.35
Rate N $mm alloc cost	15.68	27.37	67.69	110.74
Rate DS $mm alloc cost	4.17	9.76	7.51	21.44
Total $mm alloc cost	69.08	143.76	259.68	472.53
Rate R Harmonize Delta	-9.33	17.93	-8.61	0.00
Rate N Harmonize Delta	-2.87	2.84	0.02	0.00
Rate DS Harmonize Delta	-1.27	0.17	1.10	0.00
Total mcf	-13.47	20.95	-7.48	0.00
Rate R Harmonize Delta %	-18.9%	16.8%	-4.7%	0.0%
Rate N Harmonize Delta %	-18.3%	10.4%	0.0%	0.0%
Rate DS Harmonize Delta %	-30.6%	1.8%	14.6%	0.0%
Total mcf	-19.5%	14.6%	-2.9%	0.0%

Base Rate Impacts of Harmonized Rates ($mm)

	CPG	PNG	UGI Gas	CPG%	PNG%	UGI Gas%
Rate R	-14.5	1.4	13.1	-33.0%	1.6%	11.2%
Rate N	-1.5	3.3	-1.8	-11.8%	14.0%	-2.8%
Rate DS	-0.2	3.5	-3.2	-5.8%	40.4%	-23.7%
Total	-16.2	8.2	8.1	-26.8%	6.7%	4.2%

Total Rate Impacts of Harmonized Rates ($mm)

	CPG	PNG	UGI Gas	CPG%	PNG%	UGI Gas%
Rate R	-12.5	11.2	1.3	-19.1%	7.2%	0.6%
Rate N	-2.8	5.6	-2.9	-12.7%	14.3%	-2.8%
Rate DS	-0.2	3.5	-3.2	-5.8%	40.4%	-23.7%
Total	-15.5	20.3	-4.8	-17.0%	10.0%	-1.4%

Billing Determinant Source:

CPG: 2011 B/R Case, RDK Records

PNG: 2017 B/R Case, YE Sept 2018, RDK Records

UGI Gas: 2016 B/R Case, YE Sept 2017, RDK Records

EXHBIT IEc-3

REFERENCED INTERROGATORY RESPONSES

OSBA-I-1

OSBA-I-2

OSBA-I-3

OSBA-I-7

OSBA-I-8

OSBA-I-9

OSBA-I-10

OSBA-I-11

OSBA-I-1

Request:

In general, how will post-merger base rates proceedings be handled? For example:

a. Will any post-merger base rate proceeding involve the total revenue requirement for all three divisions? Please explain any negative response, and explain how inter-divisional costs will be treated in such a filing?

b. Will revenue requirements be determined separately for each division, or will the filing include only an aggregate revenue requirement? Please explain your response. If only an aggregate revenue requirement will be shown, please explain how rates will be set for each division.

c. Will a single cost allocation study be presented for the combined rate classes, such that allocated costs reflect the costs for each class across all three divisions, or will separate divisional cost allocation studies be submitted? Please explain your response.

d. Is it correct to interpret the proposed merger as implying that the Companies intend to harmonize base distribution rates across divisions over some future time and subject to Commission approval?

e. Please confirm that the table below reasonably reflects the existing differences in tariff charges to Rate N/NT and Rate DS customers for the three companies. If you cannot confirm, please provide a corrected version.

f. In light of these fairly significant differences for small business rates shown below (note, e.g., the relatively high UGI Utilities Gas Division Rate DS charges), please discuss the anticipated time frame and number of proceedings to achieve harmonized rates

OSBA-I-1 (Continued)

UGI Companies' Base Rate Comparison (from tariffs on web site 12 May 2018)

	UGI CPG	UGI PNG	UGI--Gas Div.
Rate N			
Customer Charge ($/month)	$30.40	$34.00	$16.00
Distribution Charge ($/mcf)	$3.2097	$2.5368	$5.6867
MFC (% of PGC)	0.14%	0.25%	0.36%
GPC ($/mcf)	$0.0400	$0.0420	$0.0800
EEC Rider ($/mcf)	--	$0.0339	$0.0158
DSIC ($ Dist'n Charges)	7.50%	0.69%	0.00%
Rate DS			
Customer Charge ($/month)	$192.27	$229.00	$290.00
Dist'n Charge to 500 mcf ($/mcf)	$2.5772	$1.8488	$3.5383
Dist'n Charge over 500 mcf ($/mcf)	$2.5772	$1.8488	$3.0383
EEC Rider ($/mcf)	--	$0.0429	-$0.0587
GDE Rider ($/mcf)	$0.0061	$0.0025	$0.0000
DSIC ($ Dist'n Charges)	7.50%	0.69%	0.00%

Response:

a. Yes. In the first base rate case post-merger, UGI Utilities, Inc. (the Company) intends to use a single revenue requirement model for determining the revenue requirement in total. Please also see the response to b, below.

b. In the first base rate case post-merger, while the Company intends to use a single revenue requirement for determining the rates for all three rate divisions, a class cost of service study will allocate costs to the various rate classes to determine a single, overall class average rate of return at present revenue and one at proposed revenue. The proposed revenue class cost of service study will reflect revenues generated by the revenue requirement allocated to (i) each class as a whole and (ii), within each class, the amount of revenue to be generated from each rate division. As is typical, in allocating the rate increase, the Company will consider the impact that moving an entire class or all rate divisions within a class to unity rate of return will have on the percentage increase for that class rate division within a class and, where appropriate, exercise judgment to mitigate the impact through rate design or revenue allocation.

UGI believes that presenting a single revenue requirement in this manner provides the transparency reasonably necessary to measure the impact that movement

OSBA-I-1 (Continued)

towards a uniform rate structure will have on the various customer classes within the rate districts. In this manner, a clear trail of pre-merger rates and proposed post-merger rates will demonstrate that impact. Parties will be free to challenge the Company's proposal on the basis of gradualism and other ratemaking concepts.

UGI would note that a brief review of data provided in the Companies' annual reports filed with the PUC demonstrates that the costs structures for each business are in current relative positions such that movement towards a uniform rate structure should be manageable. For example, ratios developed from reported 2017 data reveal that the variance by rate district varies only from 3 to 9 percent on revenue per customer, on a total O&M (inclusive of gas costs) per customer, and Plant/Materials and Supplies/Gas Storage Inventory per customer bases, when comparing the lowest cost rate district with the system average.

c. Yes, the Company intends to use a single cost allocation study for all classes. By using a single cost allocation study for all classes, the Company can measure the impact that a proposed rate change will have on the class as a whole and on the revenues generated by each class within the three rate divisions.

d. Yes. The Company believes it would be appropriate to harmonize base distribution rates across divisions over some future time period, subject to review in base rate proceedings and Commission approval. Factors affecting the time period over which this happens would be the impact that such harmonization would have on the rates of any one class or any class within a rate division. Harmonization in that way will allow the Company to further reduce the burden of filing additional redundant regulatory filings, as discussed in response to OSBA-I-7

e. Confirmed.

f. The anticipated time frame and number of proceedings to achieve harmonized rates among three rate divisions cannot be determined through a simple comparison of current rates. Factors that must be considered include the class return as a whole at current and proposed rates and the impact that movement towards unity rate of return will have on the class as a whole and on each class within a rate division. In the first rate case post-merger, the Company intends to present data sufficient to measure such movement and relative impacts. As a rule of thumb, the Company believes that rate impacts of greater than two times the system average rate increase for any class within any rate division would require

OSBA-I-1 (Continued)

rate mitigation over a minimum of two rate cases through revenue allocation and rate design absent other factors. Additionally, the Company anticipates customer migration and rate design to also be elements which influence the ultimate proposed impact for any particular class.

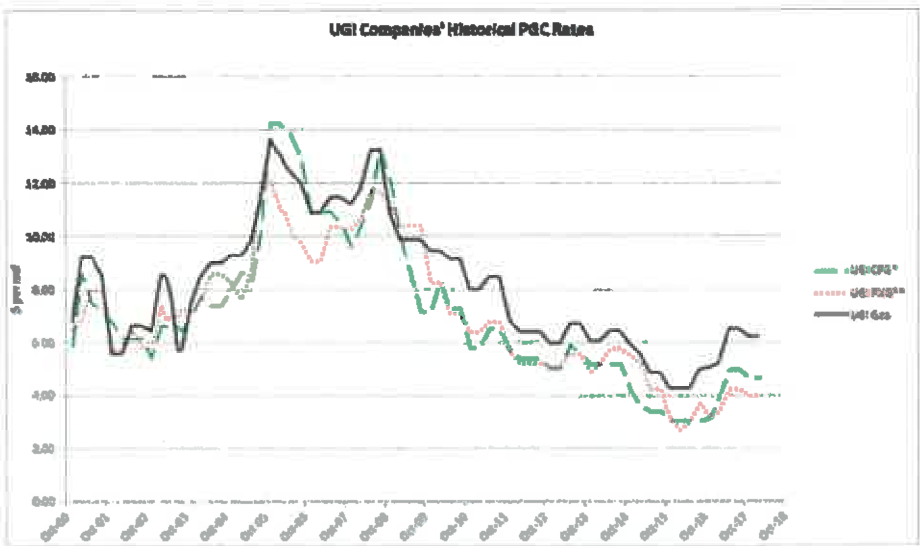
Prepared by or under the supervision of: Paul J. Szykman

UGI Utilities, Inc. - Gas Division
Docket No. A-2018-3000381; A-2018-3000382; A-2018-3000383
UGI Utilities Merger
Responses to OSBA Set 1 (1 thru 15)
Delivered on May 22, 2018

OSBA-I-2

Request:

The graph below shows the PGC Rates for the three companies since October 2000:



a. Please confirm that the figure presented above reasonably represents the total PGC rates for the three companies since late 2000. If you cannot confirm, please provide a corrected version.

b. Why have the PGC rates for UGI Utilities Gas Division been consistently higher than those for PNG and CPG since 2009/2010? What occurred at that time to cause the divergence?

c. Do the Companies intend to eventually or immediately merge the PGC rates into a single rate for the combined utility? If so, will such a harmonized rate unfairly subsidize UGI Utilities Gas Division customers in a high cost to serve geographic area?

Response:

a. Confirmed.

OSBA-I-2 (Continued)

b. There are two principal reasons causing higher PGC rates for UGI Utilities Gas Division compared to PNG and CPG.

First, in comparison to PNG and CPG system growth, UGI Utilities Gas Division has experienced substantially greater customer growth. This growth has driven a greater increase in winter design cold peak day requirements for which the Company reserves peak day supply and transportation capacity. This has required UGI Utilities Gas Division to acquire more interstate pipeline and peaking capacity in recent years relative to CPG and PNG demand needs. Second, capacity charges for more recent vintages of pipeline transportation and peaking contract are more expensive than earlier vintages of interstate pipeline capacity. The combination of these two factors explains most of the observed difference.

Differences in commodity cost (non-demand related) per Mcf among the three businesses are nominal.

c. Yes, the Company intends to eventually merge the PGC rates into a single rate for a consolidated entity. The impact caused by movement towards a harmonized PGC should not be viewed in isolation from the impact caused by harmonizing base rates. The Company believes that the impact should be measured in terms of the impact on the overall class revenue, and not just the base rate or the gas cost component. For example, for Rate R, CPG's higher base rates in comparison with UGI' Gas' lower base rates should allow CPG's residential customers to mitigate the impact of the PGC blending and even benefit from overall cost savings through a uniform rate structure.

In any event, mitigation of rate movements to avoid rate shock through gradualism often occurs in the context of merging utility systems into one. This is done by rate design and revenue allocation, in the context of a base rate case. The Company believes subsidy concerns related to combination of entities have been addressed in a just and reasonable fashion numerous times throughout the long history of historic entity combinations which have led to the Company's current entity configuration. Such concerns can continue to be addressed in a just and reasonable fashion as the Company now moves forward with additional harmonization.

Prepared by or under the supervision of: Paul J. Szykman

OSBA-I-3

Request:

Regarding the organizational charts shown in the Application at Appendices H and J:

a. What are the current divisions of UGI Utilities Inc., if any, other than the Gas Division and the Electric Division?

b. What divisions of UGI Utilities Inc. will exist after the merger, if any, other than Central, North and South?

c. Are the UGI Utilities Inc. companies that will not be merged into the parent generally unregulated? If so, why will UGI Corporation be structured such that a firm consisting primarily of regulated utilities will have unregulated subsidiaries?

Response:

a. There only two divisions of UGI Utilities, Inc., the Electric Division and the Gas Division.

b. UGI Utilities, Inc. will still have only two divisions, the Gas Division and the Electric Division. The Gas Division will be composed of three rate districts, UGI North (currently PNG), UGI Central (currently CPG), and UGI South (currently UGI Gas).

c. The UGI Utilities, Inc. subsidiaries that will not be merged into UGI Utilities, Inc., are all non-regulated entities. Operation Share Energy Fund is a non-profit business through which energy hardship funds are first donated and then contributed towards the payment of bills for payment troubled customers. The remaining companies are legacy businesses and are currently being evaluated for the purpose of dissolution or movement elsewhere on the UGI Corporation organizational structure. In any event, it is not uncommon for a utility business to own non-regulated businesses.

Prepared by or under the supervision of: Paul J. Szykman

OSBA-I-7

Request:

Regarding the administrative savings listed in para. 70 of the Application:

a. Are the Companies indicating that it will not maintain separate books of account for the three divisions, or would separate books be eliminated only after consolidated rates are achieved? That is, are these savings a benefit of the merger, or are they a benefit of a possible future Commission decision harmonizing the rates?

   i. Similarly, is it correct that UGI Utilities and hearing participants will need to carefully track inter-divisional transactions unless and until all rates are harmonized?

b. Given the long list of regulatory filings that will remain separate in paragraph 40, what are the specific regulatory filings referenced in para. 70 that will be "initially" avoided/reduced?

c. What are the specific tax filings that will be eliminated? Realistically, are there any material savings associated with avoided tax submissions as a result of the merger? If so, please identify the tax filings and estimate the savings.

Response:

a. The Company intends to have one consolidated book of accounts for UGI Utilities, Inc. Gas Division and does not intend to maintain separate books of account of each of the three divisions after completion of the merger. The Company believes that such separate books of accounts are unnecessary with or without rate harmonization. Just and reasonable rates may be established through a consolidated revenue requirement, as discussed in the Company's response to OSBA-I-1.

   i. No. The Company does not believe that UGI Utilities and hearing participants will need to track inter-divisional transactions as the districts will be part of the same UGI Gas Division, and not separate corporations. The Company intends only to track the allocations of costs between the UGI Utilities' Gas Division and the Electric Division, in addition to

OSBA-I-7 (Continued)

affiliate costs incurred by UGI Utilities from UGI Corporation and other companies within the UGI Corporation family of companies.

b. Ten types of filings are identified in paragraph 40. The Company's regulatory filing inventory consists of numerous tax, regulatory, and other filings. The Company estimates that more than 100 of those filings are associated with CPG and PNG's separate legal status, many of which are made with the PUC. Therefore, upon merger, the Company should be able to eliminate all duplicate non-PUC filings and most of the PUC filings. Of the 10 types of filings identified in paragraph 40 to the application, only 17 duplicate filings need to be retained until rate harmonization is achieved because item c. currently affects only two of the businesses and item f. only affects one of the businesses. Please see Attachment OSBA-I-7(b) for a detailed list of anticipated reporting and filing eliminations which will result from the merger.

c. The Company's regulatory inventory consists of more than 80 tax-related filings. Of these, we estimate that 22 filings are associated with the separate legal statuses of CPG and PNG. We do not believe that there will be significant tax expense savings but that the opportunity to file more than 30 percent fewer tax filings in the future will provide considerable administrative efficiency savings.

Prepared by or under the supervision of: Paul J. Szykman

Merger Reporting/Filing Eliminations

	ENTITY	NAME OF FILING	PERIOD COVERED (FILING FREQUENCY)
1	UGI CPG	Affirmative Action Plan	Annually
2	UGI PNG	Affirmative Action Plan	Annually
3	UGI PNG	Annual Asset Optimization Plan	Annual
4	UGI CPG	Annual Asset Optimization Plan	Annual
5	UGI PNG	Annual Depreciation Report	Annually
6	UGI CPG	Annual Depreciation Report	Annually
7	UGI PNG	Annual Gas PGC - Compliance Filing	Annually
8	UGI CPG	Annual Gas PGC - Compliance Filing	Annually
9	UGI CPG	Annual Gas PGC Filing - Book 1	Annually
10	UGI PNG	Annual Gas PGC Filing - Book 1	Annually
11	UGI PNG	Annual Gas PGC Filing - Book 2	Annually
12	UGI CPG	Annual Gas PGC Filing - Book 2	Annually
13	UGI PNG	Annual Report - Gas Distribution Systems	Annually
14	UGI CPG	Annual Report - Gas Distribution Systems	Annually
15	UGI PNG	Annual Report - Natural and Other Gas Transmission and Gathering Systems	Annually
16	UGI CPG	Annual Report - Natural and Other Gas Transmission and Gathering Systems	Annually
17	UGI PNG	Annual Report on Unaccounted For Gas	Annually
18	UGI CPG	Annual Report on Unaccounted For Gas	Annually
19	UGI PNG	Bethelem City Business Privilge Tax Returns	Annually
20	UGI CPG	Bethelem City Business Privilge Tax Returns	Annually
21	UGI PNG	Capital Investment Plan Report	Every 5 years

Merger Reporting/Filing Eliminations

	ENTITY	NAME OF FILING	PERIOD COVERED (FILING FREQUENCY)
22	UGI CPG	Capital Investment Plan Report	Every 5 years
23	UGI PNG	PA Corporate Tax Return	Annual
24	UGI PNG	MS Corporate Tax Return	Annual
25	UGI CPG	PA Corporate Tax Return	Annual
26	UGI PNG	Distribution System Improvemenrt Charge (DSIC)	Quarterly
27	UGI CPG	Distribution System Improvemenrt Charge (DSIC)	Quarterly
28	UGI PNG	Distribution Systems - Failure Reports	Annually
29	UGI CPG	Distribution Systems - Failure Reports	Annually
30	UGI PNG	EAP Winter Season Reporting	Annually
31	UGI CPG	EAP Winter Season Reporting	Annually
32	UGI CPG	EPA Greenhouse Gas Reporting	Annually
33	UGI PNG	.EPA Greenhouse Gas Reporting	Annually
34	UGI CPG	EPA Greenhouse Gas Reporting	Annually
35	UGI PNG	EPA Greenhouse Gas Reporting	Annually
36	UGI PNG	PA Dept of Revenue Estimates	Quarterly
37	UGI PNG	MS Department of Revenue Estimates	Quarterly
38	UGI CPG	PA Dept of Revenue Estimates	Quarterly
39	UGI PNG	PA Dept of Revenue Extension	Annual
40	UGI PNG	MS Department of Revenue Extension	Annual
41	UGI CPG	PA Dept of Revenue Extension	Annual
42	UGI PNG	Transportation & Storage Report for Intrastate Natural Gas and Hinshaw	Quarterly

Merger Reporting/Filing Eliminations

	ENTITY	NAME OF FILING	PERIOD COVERED (FILING FREQUENCY)
43	UGI CPG	Transportation & Storage Report for Intrastate Natural Gas and Hinshaw	Quarterly
44	UGI PNG	FERC Form 552 -Annual Report of Natural Gas Transactions	Annually
45	UGI CPG	FERC Form 552 -Annual Report of Natural Gas Transactions	Annually
46	UGI PNG	Filing of Major Construction Notice (>$10,000,000)	Consolidate as able
47	UGI CPG	Filing of Major Construction Notice (>$10,000,000)	Consolidate as able
48	UGI PNG	Filing of Major Construction Reports (>$300,000)	Consolidate as able
49	UGI CPG	Filing of Major Construction Reports (>$300,000)	Consolidate as able
50	UGI PNG	Form 720 - Quarterly Federal Excise Tax Return	Quarterly
51	UGI PNG	Gas State Tax Adjustment Surcharge	Periodic
52	UGI CPG	Gas State Tax Adjustment Surcharge	Periodic
53	UGI PNG	Gas Annual Rate Comparison - PUC	Annually
54	UGI CPG	Gas Annual Rate Comparison - PUC	Annually
55	UGI PNG	Gas IRP- Annual Resource Planning Report	Bi Annually
56	UGI CPG	Gas IRP- Annual Resource Planning Report	Bi Annually
57	UGI PNG	Gas OCA Choice Switching Report	Quarterly
58	UGI CPG	Gas OCA Choice Switching Report	Quarterly
59	UGI PNG	Gas Residential & Commerical Price-to-Compare	Quarterly
60	UGI CPG	Gas Residential & Commerical Price-to-Compare	Quarterly
61	UGI CPG	Get Gas Annual Report	Annual
62	UGI PNG	Get Gas Annual Report	Annual
63	UGI PNG	Integrated Resource Planning ("IRP") Report	Annually

Merger Reporting/Filing Eliminations

	ENTITY	NAME OF FILING	PERIOD COVERED (FILING FREQUENCY)
64	UGI CPG	Integrated Resource Planning ("IRP") Report	Annually
65	UGI PNG	Integrated Resource Planning ("IRP") Report - Preliminary	Annually
66	UGI CPG	Integrated Resource Planning ("IRP") Report - Preliminary	Annually
67	UGI CPG	LEI Renewal	Annually
68	UGI PNG	LEI Renewal	Annually
69	UGI PNG	Long-Term Infrastructure Plan	Periodic
70	UGI CPG	Long-Term Infrastructure Plan	Periodic
71	UGI PNG	Louisiana Fuel Storage Reports	Annually
72	UGI CPG	Louisiana Fuel Storage Reports	Annually
73	UGI PNG	Mississippi Personal Property Rendition	Annually
74	UGI CPG	Mississippi Personal Property Rendition	Annually
75	UGI PNG	National Pipeline Mapping System	Annually
76	UGI CPG	National Pipeline Mapping System	Annually
77	UGI PNG	Transmission Integrity Management Program	As needed
78	UGI CPG	Transmission Integrity Management Program	As needed
79	UGI PNG	PA Sales & Use Tax Returns	Monthly
80	UGI CPG	PA Sales & Use Tax Returns	Monthly
81	UGI PNG	PUC Annual Report	Annually
82	UGI CPG	PUC Annual Report	Annually
83	UGI PNG	PUC Monthly Gas Switching Chart	Monthly
84	UGI CPG	PUC Monthly Gas Switching Chart	Monthly

Merger Reporting/Filing Eliminations

	ENTITY	NAME OF FILING	PERIOD COVERED (FILING FREQUENCY)
85	UGI PNG	PURTA (Public Utility Realty Tax)	Annually
86	UGI CPG	PURTA (Public Utility Realty Tax)	Annually
87	UGI PNG	Quarterly Earnings Report	Quarterly
88	UGI CPG	Quarterly Earnings Report	Quarterly
89	UGI PNG	Quarterly Gas PGC Filings	Quarterly
90	UGI CPG	Quarterly Gas PGC Filings	Quarterly
91	UGI PNG	Safety Related Condition Report	Periodic
92	UGI CPG	Safety Related Condition Report	Periodic
93	UGI PNG	Service Life Study Report	Every 5 years
94	UGI CPG	Service Life Study Report	Every 5 years
95	UGI PNG	Tier II Reporting	Annually
96	UGI PNG	Universal Service Program Reconciliations	Annually
97	UGI CPG	Universal Service Program Reconciliations	Annually
98	UGI PNG	Universal Service surcharge filing	Periodic
99	UGI CPG	Universal Service surcharge filing	Periodic
100	UGI PNG	WV Fuel Storage Reports	Annually
101	UGI CPG	WV Fuel Storage Reports	Annually

OSBA-I-8

Request:

Can the Companies be more specific about the savings referenced in the Application at paragraphs 72 and 73? In particular, please explain how basic accounting and IT savings can be achieved with three divisions with separate rates as compared to three companies with separate rates. Moreover, if there are no labor reductions, how will these savings be achieved?

Response:

Having three separate regulated utility companies requires the Company to charge and track transactions between and among the different utility companies. The methods used by the Company and approved by the Commission include direct assignment (where only one business benefits from the costs), the Modified Wisconsin Formula, or predetermined time allocations. At this point, salaries and benefits of most administrative, customer service, marketing, engineering, safety, training, regulatory, gas supply, and management level positions not involving field operations are allocated using the MWF. Field employees are typically associated with only one area except in some areas where the service territories of each Company are adjacent to each other. In that case, affected employees must track their time and record it for accounting purposes. That will no longer be necessary under a merged entity.

The time and effort needed to manually identify costs that need to be direct assigned and those that need to be allocated is considerable. Eliminating the need to track these inter-company costs through merger will free up considerable time within the accounting function, and in other functions where employees must keep track of the time they spend working on each entity. This will allow employees to focus on work practice and process improvement that benefit customers.

While the Company has not performed a rigorous study on synergies, we believe that the increased efficiency will assist the Company in managing succession for employees who retire and to alleviate the Company's reliance on outside contractors in some areas so that in the long run, the Company will be able to operate certain administrative functions with fewer peoples. This will result in fewer costs than if the utilities were maintained as separate utilities.

Prepared by or under the supervision of: Paul J. Szykman

OSBA-I-9

Request:

Other than the example cited in paragraph 76, can the Companies be more specific about the operational savings anticipated from the merger, and explain why those savings cannot be achieved in the existing organizational structure?

Response:

As noted in the response to OSBA-I-8, the Company has not performed a rigorous study of the cost synergies that might be incurred through the merger. The Company's proposal in this case, however should be viewed as the next natural step to take in unifying commonly owned, operated and managed utility companies into one. Since 2006 when PNG was acquired and since 2008 when CPG was acquired, the Company has taken three separately owned and operated public utilities and placed them under common management and operation across the organization. However, the Company realizes that maintaining artificial distinctions between and among the three gas utilities stunts the ultimate ability to fully operate as one, when hundreds of administrative tasks are performed merely because of separate corporate identity. It is axiomatic that eliminating the need for those filings and many other related tasks will result in administrative savings. The Company estimates that several thousand person-hours of time savings will be associated with these administrative savings. Please also see the Company's response to OSBA-I-7.

Specifically, from an operational perspective, building interconnections between two separate utility companies requires apportionment of cost and incremental costs. Cost apportionment and tracking of those allocations is unnecessary and the costs avoided where the facilities are a part of a merged utility. Incremental facilities such as metering equipment between utilities, along with associated operating and maintenance tasks, can be avoided when it is a merged entity.

Prepared by or under the supervision of: Paul J. Szykman

OSBA-I-10

Request:

Regarding the example in paragraph 76, can the Companies point to specific reinforcement projects involving multiple companies that cannot be achieved under the existing organization but can be achieved post-merger? If so, please explain why the existing organization precludes such projects.

Response:

A review of the map provided in Exhibit I to the Application shows numerous instances where the service territories of the three proposed rate districts are adjacent to each other. Throughout these locations, there are instances where future interconnections between distribution systems would provide system reliability and reinforcement benefits. Among these locations are Shoemakersville (UGI -CPG), Lewisburg (CPG-PNG), Pittston (CPG-PNG), and Northumberland (CPG-PNG). Furthermore, as the distributions systems continue to grow and extend towards each other, additional interconnect opportunities are certain to arise, such as along State Route 611 in the Stroudsburg / Mt. Pocono area (UGI -CPG). While there are currently several system interconnects between the companies, they are limited to major transfer points because of the requirement for metering equipment necessary to track gas supply costs. Subsequent to a company merger, and following the eventual consolidation of rate districts, a greater number of interconnects within the distribution systems becomes practical.

Prepared by or under the supervision of: Paul J. Szykman

OSBA-I-11

Request:

Regarding the capital efficiencies referenced in the Application at paragraphs 78 and 79:

a. Does this reference imply that the cost of debt will be harmonized for all three divisions?

b. Will that require Commission approval beyond the merger? Please explain your response.

Response:

a. No. The cost of debt that the Company uses for ratemaking purposes is already based on the overall UGI Utilities' capital structure and cost of debt because UGI Utilities raises all public debt for the three utility companies. What is being referenced in paragraphs 78 and 79 is the cash management process that the Companies use to provide sufficient cash to manage the working capital requirements of CPG and PNG through inter-company loans from UGI Utilities to CPG and PNG. These inter-company loans will no longer be necessary with the merger. The elimination of the inter-company loans simply identifies another source of administrative efficiency that will be attained upon merger.

b. The Company believes that the various and sundry authorizations requested in the Application are broad enough to cover the elimination of the inter-company loan process. As it is predicated on separate corporate identifies, the inter-company loan and process applicable to it will no longer be needed. See pages 30-31 to the Application.

Prepared by or under the supervision of: Paul J. Szykman

VERIFICATION

Reference: OSBA Statement No. 1
Direct Testimony and Exhibits of Robert D. Knecht

UGI Utilities, Inc. – Gas Division
UGI Penn Natural Gas, Inc.
UGI Central Penn Gas Inc.

Docket Nos. A-2018-3000381
A-2018-3000382
A-2018-3000383

Joint Application (Merger Related)

I, Robert D. Knecht, hereby state that the facts set forth herein above are true and correct to the best of my knowledge, information and belief and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. §4904 (relating to unsworn falsification to authorities).

Date: August 10, 2018

Appendix D

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Joint Application of UGI Utilities, Inc., UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc. for All of the Necessary Authority, Approvals, and Certificates of Public Convenience for (1) an Agreement and Plan of Merger; (2) the Merger of UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc. into UGI Utilities, Inc.; (3) the initiation by UGI Utilities, Inc. of natural gas service in all territory in this Commonwealth where UGI Penn Natural Gas, Inc. and UGI Central Penn Gas do or may provide natural gas service; (4) the abandonment by UGI Penn Natural Gas, Inc. of all natural gas service in this Commonwealth; (5) the abandonment by UGI Central Penn Gas, Inc. of all natural gas service in this Commonwealth; (6) the adoption by UGI Utilities, Inc. of UGI Penn Natural Gas, Inc.'s and UGI Central Penn Gas, Inc.'s Existing Tariffs and their Application within New Service and Rate Districts of UGI Utilities, Inc. Corresponding to their Existing Service Territories as UGI North and UGI Central, respectively; (7) the adoption by UGI Utilities of its Existing Tariff to be applied to a new UGI South Service and Rate District; (8) Where Necessary, Associated Affiliated Interest Agreements; and (9) any Other Approvals Necessary to Complete the Contemplated Transaction	:	Docket Nos. A-2018-3000381 A-2018-3000382 A-2018-3000383

DIRECT TESTIMONY OF JAMES L. CRIST
ON BEHALF OF
DOMINION ENERGY SOLUTIONS, INC., SHIPLEY CHOICE, LLC,
INTERSTATE GAS SUPPLY, INC., AND RHOADS ENERGY

NGS Parties' Statement No. 1
July 10, 2018

INTRODUCTION

Q. State your name and business address, and tell us on whose behalf you are testifying?

A. I am James L. Crist, President of Lumen Group, Inc. a consulting firm focused on regulatory and market issues. My business address is 4226 Yarmouth Drive, Suite 101, Allison Park, Pennsylvania 15101. I am presenting testimony on behalf Dominion Energy Solutions, Inc. ("DES" or "Dominion"), Shipley Choice, LLC d/b/a Shipley Energy ("Shipley"), Interstate Gas Supply, Inc. d/b/a IGS Energy ("IGS"), and Rhoads Energy ("Rhoads") (collectively, "NGS Parties"). The NGS Parties are each Choice natural gas suppliers ("NGS" or "Choice Supplier") to Choice customers in UGI territory and other areas of Pennsylvania.

Q. Briefly describe your educational experience and relevant qualifications.

A. I have a B.S. in Chemical Engineering from Carnegie Mellon University and an M.B.A. from the University of Pittsburgh. I have operated a consulting practice for the past 15 years, focused on regulated and deregulated energy company strategy, market strategy, regulatory issues, and overseeing the transition to competitive retail markets. In one of my consulting assignments, I served as the Vice President of Customer Markets for ACN Energy, a retail marketer of gas and electricity in seven states. Prior to that, I was employed by three major energy companies for a total of 19 years. Most recently I was Vice President of Marketing for Equitable Resources. In that function, I was responsible for the development of strategy for customer choice programs and oversaw the company's participation in the first residential customer choice program in Rock Valley, Iowa, in 1996.

Prior to my employment at Equitable Resources, I was Vice President of Marketing for Citizens Utilities. In that role I was responsible for gas, electric, water and wastewater marketing activities across several service territories in the United States. Under my direction, Citizens Utilities initiated commercial and industrial transportation and supply services at its gas operation in Arizona. I directed significant gas supply contracting activities with large industrial and commercial customers at Citizens Utilities' gas operation in Louisiana.

I was the Marketing Director at Peoples Natural Gas of Pittsburgh, Pennsylvania, during 1988 through 1994, where I was actively involved in many gas transportation programs as the company introduced competition for residential customers. In summary, I have considerable experience in several states fostering the transition to competitive retail markets.

Q. Have you previously testified before the Pennsylvania Public Utility Commission?

A. Yes, I have appeared before the Pennsylvania Public Utility Commission ("Commission") in several gas and electric regulatory proceedings. Additionally, I provided testimony on a variety of issues relating to energy procurement, industry restructuring, and demand response before regulatory commissions in Arizona, Illinois, Maryland and the U.S. Virgin Islands. I have testified in several UGI proceedings including the 2010 proceeding on Choice issues and the supplier tariff, the 2011 proceeding of UGI Utilities, Inc. – Gas Division ("UGI"), UGI Penn Natural Gas, Inc. ("PNG"), UGI Central Penn Gas, Inc. ("CPG" and, together with UGI and PNG, the "UGI System" or "Companies") which dealt with Choice and supplier issues, the 2012 case that implemented a Gas Procurement

Charge ("GPC") pursuant to an order of the Commission directing the Companies to do so, and the 2015 base rate case at Docket R-2015-2518438. For several years, I have been representing the Natural Gas Suppliers in their efforts to foster a level playing field with fair requirements that do not place customers who wish to shop at a financial disadvantage.

Q. Who are the members of the NGS Parties?

A. They are Dominion, Shipley, IGS, and Rhoades, and I will describe each of them in more detail.

Q. Please describe Dominion Energy Solutions, Inc.

A. Dominion has been active in the Pennsylvania retail choice natural gas markets since 1997 and currently serves a combined total of approximately 141,200 residential and commercial & industrial gas customers on the Columbia Gas of Pennsylvania, PECO, PNG (Equitable Division), PNG, and UGI Utilities and UGI Penn Natural Gas systems. DES anticipates continuing to offer service on these utility systems in the future.

Q. Please describe Shipley.

A. Shipley Energy commenced operations in 1929 and is a fuel oil, biofuel, propane, electricity and natural gas supplier based in York, Pennsylvania. Shipley sells natural gas in Pennsylvania, Maryland and Ohio. Shipley has been active in Pennsylvania natural gas markets since 1998 and serves residential, commercial and industrial Pennsylvania gas customers on the UGI, PECO and Columbia Gas of Pennsylvania systems.

Q. Please describe IGS Energy.

A. IGS Energy has over 25 years' experience serving customers in competitive markets throughout the country. IGS Energy serves over 1 million gas and electric customers nationwide in 12 states and in over 45 utility service territories. In Pennsylvania IGS currently serves natural gas and electric customers across a multi-utility footprint. The IGS family of companies (which includes, IGS Energy, IGS CNG Services, IGS Solar, IGS Generation, and IGS Home Services) provides customer focused energy solutions that help customers take control of their energy needs. In addition, IGS operates four satellite offices in the Commonwealth, and employs over 100 sales and managerial staff at those locations.

Q. Please describe Rhoads.

A. Rhoads Energy started operations in 1917 as a local kerosene supplier in Lancaster County, PA. Today, Rhoads serves 5 counties, including Lancaster, Chester, Montgomery, Berks and Lebanon with a full line of delivered energy products. The company's offerings include natural gas, propane, heating oil and motor fuels along with HVAC installation and service. Rhoads has been serving gas to the UGI and PECO markets since 2011 and has focused primarily on the residential and commercial customer base.

PURPOSE OF TESTIMONY

Q. Why are the Natural Gas Suppliers participating in this case?

A. UGI Utilities, Inc. ("UGI" or "Company") which currently operates UGI Utilities- Gas Division ("UGI Gas") has proposed to merge its other two currently independent natural gas distribution utilities, UGI Penn Natural Gas, Inc. ("PNG"), UGI Central Penn Gas, Inc.

("CPG") into UGI. The Company has claimed that such a merger will benefit not only the Company but also its customers through efficiencies in the form of administrative, regulatory, capital deployment and operational gains which will allow the Company to process necessary tasks more efficiently. In his direct testimony (UGI Statement No. 1) Mr. Szykman cites many administrative savings of tasks and time that will benefit the Company. There are a number of regulatory filings that now will be consolidated, reducing the number of required filings to one-third of the previous volume. Although Mr. Szykman identified a number of tasks that will no longer require duplication which will result in freeing up available man-hours he did not propose a reduction of employees or an operating expense saving due to this merger. Instead Mr. Szykman claims that those employees who find a time on their hands will be redeployed on tasks that facilitate the streamlining of business process to improve service to customers.

Q. Did the Company proposed to consolidate its rate structures at the time of the merger?

A. No. There are still some significant price differences in the distribution rates of each of the three operating utilities. Mr. Szykman proposes to make such regulatory rate changes in a future base rate proceeding.

Q. What do you find lacking in Mr. Szykman's testimony?

A. What is missing is a strong commitment to remedy a number of the operational inconsistencies so that customers and suppliers may be working under uniform set of rules to meet the needs of Choice customers and non-Choice transportation customers. The

Company specifically identified Purchase of Receivable Programs and Choice program rules and requirements as functions it intends to keep on a separate rate district basis. This is not acceptable. While on the surface Mr. Szykman's proposed merger seems to make sense, streamlining and consolidating the operational rules that natural gas suppliers must deal with on a daily basis is also just plain common sense that must be done at the same time.

Q. Does the Company recognize the need to improve its rules regarding Choice and non-Choice transportation markets?

A. Yes. Mr. Szykman provides a few examples that the Company has identified for improvement. They include the existence of a Purchase of Receivable program ("POR") which is currently only offered on UGI Gas but should be offered across the entire UGI System. He also points out the discrepancies between the Gas Supply balancing rules such as the 10% daily balancing tolerance on UGI Gas yet a 2.5% daily balancing tolerance on CPG and PNG. All three operating units should be consistent in the daily balance intolerance and should offer the 10% daily balance tolerance limit currently in place at UGI Gas. He notes that currently there is a requirement that a natural gas supplier have three separate natural gas supplier licenses to do business in each of the three gas divisions. He cites the bond requirements for financial security that are currently calculated for each of the individual distribution companies rather than on a combined basis and identifies that as an item that can be consolidated. Mr. Szykman proposes to discuss these and other issues of concern with natural gas suppliers and other stakeholders in a collaborative process. While a collaborative process is necessary for many of the issues it is also important to recognize that some issues may be improved promptly upon closure of the merger and not require additional collaborative discussion. In my testimony I review all the issues that are of concern to natural gas suppliers along with our recommended solution and timetable for each of the issues.

Q. Should this merger be allowed to proceed as Mr. Szykman has described?

A. No. It is important that the Company merger not be approved without adoption of the several changes that benefit Choice and non-Choice transportation customers. The Company's proposed method of waiting until 30 days following the close of the merger and then conducting a collaborative process will only delay the implementation of these important changes and I am concerned it will remove some of the focus and efforts of the Company on a timely resolution of the natural gas supplier issues. I will separate the issues that can be addressed now, and those issues that are appropriately topics for a collaborative shortly after the merger closure.

In this merger case the Company has filed is an opportunity to improve the manner which it renders service to customers and suppliers.

TESTIMONY ISSUES

Q. What is the focus of your testimony?

A. There are several issues that individually and collectively will improve the manner that customers seeking alternatives to obtaining natural gas supply from UGI can obtain that supply from competitive suppliers of natural gas. The long-standing policies of the

Commonwealth to promote competition and to remove barriers that inhibit Customer Choice can be better served by making several changes in the manner that UGI conducts its business following its requested merger. I will address these issues:

1. **Unified supplier tariff.** A uniform tariff for transportation customers including Choice customers, and suppliers must be provided for the merged company, establishing uniformity of rules in each of the UGI Gas rate districts governing choice and, separately, non-choice transportation programs. While Mr. Szykman proposed to delay the development and implementation of a unified supplier tariff, I proposed just the contrary, that such a tariff is a pre-requisite to the merger's closing.

2. **Licensing of natural gas suppliers in all three areas.** Currently natural gas suppliers must be licensed in each of the three operating companies individually in the operating companies to provide transportation services within that company. This requirement should change with the closure of the merger and any existing license supplier in any one of the three operating companies should then be permitted to operate across the UGI System without need to obtain additional licensing. Any new supplier should be required to only obtain one license which would apply across UGI.

3. **Switching Process.** The switching process at UGI simply takes too long. Unlike other gas distribution utilities, on UGI it can take up to two billing cycles after a customer is enrolled to finalize that customers' switch to an alternative gas supplier. For example, and enrollment/rate change sent to UGI Gas on 1/31, would not take effect 2/1 but instead would take effect on 3/1 which will result in a frustrated customer and can result in financial disadvantage to the customer. When customers do the work of analyzing alternative suppliers and make a decision to select a certain supplier they expect and are entitled to the

benefits of that decision at the earliest possible moment which would be the commencement of the very next billing cycle. I recognize that the Commission is currently undertaking a rulemaking (Docket L-2016-2577413) addressing the customer switching process for those customers that elect to be served by a Choice supplier. The desirable rules for UGI post-merger would be that customer switches will be done effective at the beginning of the very next billing cycle following when the customer request was made. For example, a customer making such a request on the last day of his current billing cycle should be switched commencing with the next day which is the first day of the new billing cycle. Because it is likely that the Commission will set a switching standard that is similar to the switching standard in place for electric Choice, I propose that UGI accept and implement such a change currently as it will likely be required to make an improvement over its current practice. I recognize there may be information system modifications that are necessary to improve the switching speed which the merged company will operate. Information system improvements are discussed in Mr. Szykman's testimony as one of the major issues the Company will be undertaking. It is important that the supplier issues that require information system improvements are given a high priority and therefore the Company should be required to offer switching capability by the very next billing cycle within 90 days of the closure of the merger.

4. **Capacity issues**. Currently UGI does not allow suppliers to manage their own capacity necessary to move gas onto the UGI system and manage the storage of the gas obtained by suppliers for customers. Each mandatory assignment of capacity or costs, and each mismatch between the value of assigned capacity and the cost of that capacity, saddles a natural gas supplier with decisions made by UGI that may not be the choices that

the natural gas supplier would have made. These forced choices are a burden for the natural gas supplier and make it difficult to compete to provide gas supply to utility customers, since the natural gas supplier loses the ability to optimize its supply, transportation, and storage choices and costs. The more existing contractual structure that is forced onto the natural gas supplier, the less flexibility the natural gas supplier has that will allow it to make business decisions that are designed to improve the supply options that it can present to customers. It is hard to compete if many of the choices that affect your supply pricing are made by the entity that you are trying to outperform. This should be changed and suppliers should be able to manage their own capacity and storage to meet the needs of the Choice customers.

5. **Storage**. UGI does not provide physical storage to NGSs. Instead the NGS must purchase a bundled gas service from the Company to meet the winter demand of Choice customers. This arrangement is inferior to actually releasing the capacity to the NGS for it does not allow the NGS similar flexibility. The present substitute offering of UGI includes a ratchet mechanism that causes increased costs to suppliers. To create equality, I recommend NGSs be allocated physical storage, or virtual storage which would allow more flexibility than the present approach. UGI does not provide the full value of the transportation capacity that suppliers are assigned. The NGS should have the option of purchasing released capacity, both pipeline and storage to meet their customers' needs. For example, with regard to the capacity from Leidy, which an NGS can purchase on a monthly basis; the NGS pays full tariff price for the capacity but can only use it to deliver gas to the UGI city gate. The capacity should include delivery rights beyond the city gate to the Transco mainline pooling point #210. UGI's current policies put an NGS at a disadvantage

because they pay full price for the capacity but do not receive the full value. In fact, UGI then is able to either use or market off-system the capacity to Transco mainline pooling point #210 for its own benefit. Such capacity has value and the supplier, not the Company, should be able to realize the value for capacity.

6. **Purchase of Receivables.** As Mr. Szykman has already observed, only UGI Gas currently offers a purchase of receivable POR program -- this should be extended to CPG and PNG. Upon closure of the merger UGI should implement the same POR program across its entire system without delay.

7. **Budget Billing.** Budget billing is a requirement that utilities must offer to residential customers. The current budget billing programs of the three operating units are not consistent and this should be improved. Currently, if a budget billing customer switches from the Company's supply service (default service) to an alternative supplier or between two suppliers, the Company requires that the customer payoff any unpaid balance prior to the switch being performed. In the case where a customer may wish to make a switch in winter heating season, it is possible that the customer's gas bill balance could be relatively large and therefore the requirement to pay that balance in full prior to being allowed to switch suppliers creates a barrier to the customers wanting to switch. When there is a uniform purchase of receivables program in place as Mr. Szykman describes, then the policy issue of forcing customers to true up and pay and their bill balance prior to a switch would not be necessary. If there is a delay in the Company implementing the POR program in CPG or PNG in the interim then the requirement to pay any balance in full prior to a switch must be removed.

8. **Financial Security**. The Financial Security requirement that a Choice Natural Gas Supplier must meet should be uniform across the entire UGI System. This change may be made immediately and not require any delay beyond the closure of the merger. The amount for financial requirement should be reasonable and I would recommend to modify the financial surety requirements applicable to Natural Gas Suppliers on the consolidated UGI distribution system to reflect 1) a minimum surety level of $35,000; or 2) if higher, the sum of the surety level requirements calculated on a customer basis in accordance with the Gas Choice Supplier Tariffs of the UGI North, UGI South and UGI Central rate districts.

9. **Gas Supply issues.** The process now in place at UGI to reconcile and balance gas supplies to customer demand contains an adjustment mechanism tolerance band of +/- 10%. However, the cash in/cash out process ignores this tolerance band and forces NGSs to remedy a mismatch of supply and demand via the UGI cash in/out process in entirety. For example, if a supplier is 15% long (overdelivered) then UGI will cash in (purchase the excess supplier gas at prices less than the supplier paid) for all 15%, rather than just taking it down to the 10% tolerance band. This process should be changed so that UGI would just cash in for 5% and keep the ending balance at 10% long. Changing the current cash in/out methodology is an internal process that should not require intensive information system programming. The change in this policy should be done upon closure of the merger across UGI.

10. **Metering issues.** To properly manage customer gas supplies an NGS must have accurate and timely customer metering data. The installation of automated meter reading devices on all non-choice transportation customer meters was addressed by UGI Gas in Docket No. P-2017-2607269 and should proceed with meter installation.

Q. Should the Company hold a collaborative to discuss issues affecting transportation customers?

A. Yes. Mr. Syzkman proposed such a collaborative, although he wanted to punt all the NGS issues into the collaborative and not address them until after the closing of the proposed merger. I have rejected such a delay in addressing several issues as reviewed in this testimony. There are still several remaining issues that must be discussed in a collaborative to develop solutions that work for NGS, customers, and the Company. Such a collaborative should be held prior to September 30, 2018 and may require additional meetings after that.

Q. Does this conclude your Direct Testimony?

A. Yes.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Joint Application of UGI Utilities, Inc., UGI Penn Natural Gas, Inc., and UGI Central Penn Gas, Inc. for All of the Necessary Authority, Approvals, and Certificates of Public Convenience for (1) an Agreement and Plan of Merger; (2) the Merger of UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc. into UGI Utilities, Inc.; (3) the initiation by UGI Utilities, Inc. of natural gas service in all territory in this Commonwealth where UGI Penn Natural Gas, Inc. and UGI Central Penn Gas do or may provide natural gas service; (4) the abandonment by UGI Penn Natural Gas, Inc. of all natural gas service in this Commonwealth; (5) the abandonment by UGI Central Penn Gas, Inc. of all natural gas service in this Commonwealth; (6) the adoption by UGI Utilities, Inc. of UGI Penn Natural Gas, Inc.'s and UGI Central Penn Gas, Inc.'s Existing Tariffs and their Application within New Service and Rate Districts of UGI Utilities, Inc. Corresponding to their Existing Service Territories as UGI North and UGI Central, Respectively; (7) the adoption by UGI Utilities of its Existing Tariff to be applied to a new UGI South Service and Rate District; (8) Where Necessary, Associated Affiliated Interest Agreements; and (9) any Other Approvals Necessary to Complete the Contemplated Transaction	:	Docket No. A-2018-3000381 Docket No. A-2018-3000382 Docket No. A-2018-3000383

VERIFICATION
OF JAMES L. CRIST

I, James L. Crist, hereby verify the following facts:

1) My name is James L. Crist, and my business address is 4226 Yarmouth Drive, Suite 101, Allison Park, Pennsylvania 15101. I am employed by Lumen Group, Inc. as President;

2) I have been duly authorized by The Natural Gas Supplier Parties to testify on their behalf as a witness in the above-captioned matter;

3) NGS Parties' Statement No. 1 is my direct testimony in the above-captioned matter on behalf of The Natural Gas Supplier Parties and was prepared by me or under my supervision;

4) NGS Parties' Statements No. 1 is true and correct to the best of my knowledge, information and belief, and if a hearing were held today and I were asked the same questions, my answers would be the same as contained in each of my Statements. I understand that my statements are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

James L. Crist
President

DATE: 10 August 2018

Appendix E

COMMISSION ON ECONOMIC OPPORTUNITY

CEO Statement No. 1

Direct Testimony of Eugene M. Brady

Joint Application of UGI Utilities, Inc., UGI Penn Natural Gas, Inc., and UGI Central Penn Gas, Inc. for All of the Necessary Authority, Approvals, and Certificates of Public Convenience for (1) an Agreement and Plan of Merger; (2) the Merger of UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc. into UGI Utilities, Inc. of natural gas service in all territory in this Commonwealth where UGI Penn Natural Gas, Inc. and UGI Central Penn Gas do or may provide natural gas services; (4) the abandonment by UGI Penn Natural Gas, Inc. of all natural gas service in this Commonwealth; (5) the abandonment by UGI Central Penn Gas, Inc. of all natural gas service in this Commonwealth; (6) the adoption by UGI Utilities, Inc. of UGI Penn Natural Gas, Inc.'s and UGI Central Penn Gas, Inc.'s Existing Tariffs and their Application within New Service and Rate Districts of UGI Utilities, Inc. Corresponding to their Existing Service Territories as UGI North and UGI Central, respectively; (7) the adoption by UGI Utilities of its Existing Tariff to be applied to a new UGI South Service and Rate District; (8) Where Necessary, Associated Affiliated Interest Agreements; and (9) any Other Approvals Necessary to Complete the Contemplated Transaction

Docket Nos.: A-2018-3000381
A-2018-3000382
A-2018-3000383

Q. Please state your full name and business address.

A. Eugene M. Brady, 165 Amber Lane, PO Box 1127, Wilkes-Barre, Pennsylvania 18703-1127.

Q. By whom are you employed and in what capacity?

A. I am employed by the Commission on Economic Opportunity (CEO) as Executive Director.

Q. What are the interests of the Commission on Economic Opportunity in this rate case?

A. The Commission on Economic Opportunity is a non-profit organization serving the low-income and elderly in Luzerne County, PA. In a typical year, the Commission serves more than 25,000 Luzerne County residents, of which 98% are at or below 150% of the federal poverty level. It is part of our responsibility to our constituency to advocate for their interests in regulatory proceedings.

Q. **What background and experience in energy issues qualify you and the Commission on Economic Opportunity to participate in this case?**

A. I have served as the Executive Director of the Commission since 1978. During my tenure CEO's experience and the expertise of its staff in energy programs has been recognized on state and national levels. CEO's energy related programs have been acknowledged by receipt of a Superior Achievement Award from the United States Department of Energy. The Commission has weatherized more than 30,000 homes under the U.S. Department of Energy Weatherization Assistance Program. The organization also serves as a subcontractor for the PPL Electric Utilities' WRAP Program (LIURP) and the Low Income Usage Reduction Programs operated by the UGI Gas and Electric Divisions. In addition to energy conservation, the Commission is the contracted operator of Customer Assistance Programs sponsored by PPL and UGI and operates the hardship assistance funds for each of those utility companies. CEO is also the PA Department of Public Welfare's contracted operator of the crisis component of the Low Income Home Energy Assistance Program (LIHEAP) in Luzerne and Wyoming Counties. CEO was also a major contractor for PPL in the Low Income Renewable Energy Pilot, and secured funding and installed several solar thermal water heating systems for the former PG Energy and UGI Gas Division.

Throughout my career I have served on numerous Boards, Committees and Task Forces in the energy field under the auspices of the US Department of Energy, The PA Department of Community & Economic Development and the PA Public Utility Commission. Presently, I serve on the Board of Directors of the National Center for Appropriate Technology; I am on the Board of the National Community Action Foundation, the Chair of the Pennsylvania Weatherization Providers Task Force, and Chair of the Department of Community & Economic Development Weatherization Policy Advisory Council.

Additionally, CEO has been an active party in many restructuring and rate cases before the PUC including both PG Energy's (R-00994783) and UGI's (R-00994786) restructuring cases, and prior PPL Electric rate proceedings and participated in those matters to address universal service issues. CEO was also an active party in UGI's applications to purchase PG Energy (A-120011F2000) and PPL Gas (A-2008-2034045). CEO was also an active party in UGI Central Penn Gas' last rate case (R-2010-2214415) and UGI Penn Natural Gas' last rate case (R-2016-2580030).

Q. What is the purpose of your testimony?

A. I want to ensure that this proposed merger is beneficial to residential customers, and in particular low-income customers. The Company's application and testimony describes how the proposed merger creates efficiencies and benefits for customers but there is little in the testimony in regards to tangible benefits for its customers.

Q. Please describe what you mean?

A. In paragraph 67 of its application the Company asserts that its customers will benefit from "(a) increased administrative efficiency; (b) increase operational efficiency; (c) increased capital efficiency; and (d) increased regulatory efficiency." The application then goes on to detail the types of efficiencies under each of the topics identified in paragraph 67. Although it is clear from the Company's submissions that there will be significant savings from the merger the Company has done little in the way of quantifying those savings and thus there is nothing in the way of those savings being passed on to the ratepayers.

Q. Has the Company quantified any savings from the merger?

A. The only savings that have been quantified is that the Company believes that if the merger is approved the Company can save between $500,000 to $1,000,000 in rate case litigation expenses every four years. (Company Statement No. 1, Direct Testimony of Paul J. Szykman, p. 24). I should add that Mr. Szykman does state that he believes that the merger would reduce the annual filings from 330 to 200 (p. 18), but again that is not quantified, no specific amount of savings are identified. Throughout Mr. Szkman's testimony he cites "additional efficiency savings" (8); that the merger will "eliminate some differences in cost drivers" (12); that it will "produce immediate benefits" (16); that "affirmative benefits can be derived from the merger" (17); and in regards to customer benefits "many of these benefits will occur immediately or shortly after the merger" (26). But none of those efficiencies are quantified or given a dollar value.

Q. Was Mr. Szykman asked about the amounts of savings anticipated?

A. Yes. During discovery, when the Company was asked about the amount of savings anticipated Mr. Szykman was the responding witness and stated that "The Company has not performed a rigorous analysis of the administrative cost savings that will result form the merger." CEO Set 1-3. Further he speaks in his testimony about employee hours that would be saved but when asked what the amount of employee hour savings would be he states that a full analysis has not been done. (19).

Q. Does the Company offer testimony about benefits to customers from the proposed merger?

A. Yes. Mr. Szykman is asked how the merger will affect the Company's customers and he indicates that "our customers will experience significant benefits from the merger" and that "Many of these benefits will occur immediately or shortly after the merger." (26)

Q. And low-income customers?

A. When he is asked how the merger will affect low-income customers and the Company's Universal Service Programs, Mr. Szykman testifies that the "merger should result in little change to service provided to low-income customers whether for those who participate in Universal Services programs or for those who do not." (28).

Q. What do you take away from the testimony described above?

A. It is clear to me that there are benefits to the Company from this proposed merger in efficiencies gained and money saved; although for some reason the Company has not undertaken an analysis to estimate those savings or in any way quantify them. In short, the Company will save a significant amount of money from this proposed merger, both in the immediate and long term, and I believe that its customers, particularly low-income customers who struggle to pay their utility costs, should receive tangible benefits from the merger as a condition of any approval of the Company's application.

Q. Do you have any suggestions in how the Company can pass along the savings to its customers?

A. I do. Our agency has been helping low-income people for years and knows firsthand that they face financial challenges on many fronts -- housing, energy costs, food and health care. Our clients struggle with a myriad of financial difficulties one of which is their energy costs. The energy burden as a percentage of income for low-income individuals in Pennsylvania is significantly higher than it is for a high-income residential customer. It is for this reason that I believe that a portion of the savings that would be realized by the Company from this merger should be passed on to their low-income customers.

Q. How would suggest that those savings be passed on to the Company's low-income customers?

A. I am recommending that the Company's low-income customers receive a portion of the Company's savings in the form of an increase in LIURP funding. The Commission has long found great value in LIURP programs by stating:

> "The Commission finds that LIURP has been one of the Commonwealth's most successful programs for assisting low income customers. The Commission has found that LIURP reduces bad debt by reducing customers' bills. Customers who receive LIURP services are able to pay their entire bill plus contribute to their arrearage."

PUC Order on Duquesne Light's Restructuring, R-00974104, page 293.

One of the only defenses a family, particularly a poor family, has against the sharp increases in energy costs is to conserve – lower the thermostat, seal air leaks, change filters regularly, add more insulation, get a more efficient heating unit, etc. LIURP measures allow a poor person to reduce their energy costs while at the same time promotes conservation.

Q. What is your recommendation regarding an increase to LIURP funding?

A. The Company's triennial Universal Service Plan for the years 2018-2020 is currently pending before the Commission at M-2017-2598190 and in that Plan the Company proposes annual LIURP funding for the three gas subsidiaries that are the subject of this merger-UGI Gas, Central Penn Gas and Penn Natural Gas. I am recommending, as a condition of approval for this merger, that the Company amend the pending Plan to increase annual LIURP funding for each of the three subsidiaries. In this way, a portion of the savings realized by the Company in the merger can benefit its most vulnerable customers, its low-income residential customers, by way of additional funding for the well-regarded LIURP program.

Q. What amount of additional LIURP funding are you recommending?

A. I am recommending that annual LIURP funding be increased by $450,000 and that the increase be apportioned between the three subsidiaries in approximately the same proportion as funding is apportioned now-45% of that increase to UGI Gas, 30% to Penn Natural Gas and 25% to Central Penn Gas.

Q. Is there precedent for this type of recommendation in a merger proceeding?

A. Yes. When UGI acquired PPL Gas (now UGI's Central Penn Gas) the Commission approved a settlement in which UGI agreed to increase annual LIURP funding from $378,000 to $500,000 without cost recovery until its next base rate case. (A-2008-20340450). The Commission in August of 2008 approved that settlement and LIURP funding for the particular subsidiary involved, Central Penn Gas, remains to this day, and is proposed to remain in the pending Universal Service Plan for the years 2018-2020, at $500,000.

Q. Do you have any other recommendations?

A. Yes. I am recommending that if the merger is approved that the Company be required to use the community based organizations it currently uses in its Universal Service programs in the same manner and in the same locales as it currently uses.

Q. Does this conclude your testimony?

A. Yes.

VERIFICATION

I, **EUGENE M. BRADY**, hereby state and verify the following:

1. I am the Executive Director of the Commission on Economic Opportunity.

2. I have submitted in this proceeding, through counsel, written direct testimony, CEO Statement No. 1.

3. In lieu of my appearance at hearing in this matter, I am offering CEO Statement No. 1 into evidence at hearing through the statements set forth in this Verification.

4. If I were called to testify at hearing, the answers to the questions I gave in CEO Statement No. 1 would be the answers given by me at hearing in response to those same questions.

5. The facts set forth in my answers contained in CEO Statement No. 1 are true and correct and represent my answers to those questions.

6. There are no additions, corrections or deletions I would propose to CEO Statement No. 1.

Eugene M. Brady

EUGENE M. BRADY

Date: August 13, 2018