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September 24, 2018

VIA ELECTRONIC FILING

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

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

Dear Secretary Chiavetta:

Enclosed for filing please find the Replies of UGI Utilities, Inc. – Electric Division to the Exceptions of Other Parties in the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,

Garrett P. Lent

GPL/jl
Enclosures

cc: Honorable Steven K. Haas
Honorable Andrew M. Calvelli
Certificate of Service
Office of Special Assistants (*via E-mail Only*)

CERTIFICATE OF SERVICE

Docket No. R-2017-2640058

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

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Date: September 24, 2018

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	Docket No. R-2017-2640058
Office of Consumer Advocate	:	Docket No. C-2017-2646178
Office of Small Business Advocate	:	Docket No. C-2017-2647268
Matthew Josefwicz	:	Docket No. C-2017-2647099
Barbara McDade	:	Docket No. C-2017-3000056
	:	
v.	:	
	:	
UGI Utilities, Inc. – Electric Division	:	

REPLIES OF UGI UTILITIES, INC. – ELECTRIC DIVISION TO THE EXCEPTIONS OF OTHER PARTIES

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I. INTRODUCTION

UGI Utilities Inc. – Electric Division ("UGI Electric") files herewith its replies to the Exceptions of the Bureau of Investigation and Enforcement ("I&E"), the Office of Consumer Advocate ("OCA"), and the Office of Small Business Advocate ("OSBA"). The exceptions, in each instance, mischaracterize the record, ignore the extensive evidence presented by UGI Electric, and/or disregard established legal precedent and Commission practice. UGI Electric urges the Commission to carefully examine the Recommended Decision ("RD"), and the briefs and evidence presented by the Company. In addition, UGI Electric respectfully asks the Commission not to lose sight of the "forest for the trees." UGI Electric's last base rate was in 1996, over 20 years ago. Since that time, inflation is up by more than 60% and UGI Electric's plant investment has increased by nearly 60%. Yet, the combination of adjustments proposed by the opposing parties, if adopted in full, would result in a ***decrease*** in base rates. This is simply not a rational result and should raise a degree of skepticism regarding the opposing party proposals. For these reasons generally and as explained below, a full and fair review of the record demonstrates that the opposing parties' adjustments, to a remarkable degree, are inconsistent with long-standing and well developed Commission precedent and are at odds with clear record evidence, including the testimony and evidence of their own witnesses. A sampling of these meritless exceptions is provided below.

Fully Projected Future Test Year Methodology. Opposing parties' average test year methodology is completely unprecedented, inconsistent with the plain language of Act 11 of Feb. 14, 2012, Pub. L. 72, No. 11 ("Act 11"), and their principal factual argument is rebutted by the OCA's own witness.

Fair Rate of Return. The average national cost of common equity determination for 2017 was 9.75% and all parties agree that interest rates (and cost of common equity) have risen and are expected to continue to rise during the FPFTY. In its most recent cost of equity determination for an electric distribution company, the Commission in 2012 adopted a cost of common equity of 10.4%. The OCA's own witness demonstrated that 30-Year U.S. Treasury Yields have increased from 2.952% to 3.071% since 2012. Moreover, the yield on A-Rated Public Utility

Bonds has risen from 4.00% in December 2012 to 4.20% in August 2018. Clearly, the cost of common equity for UGI Electric is at least 10.4% and arguably higher, and cannot possibly be less than the 10% finding in the RD. The primary exception of I&E and OCA relates to the Discounted Cash Flow ("DCF") growth rate. OCA's entire analysis is based on its so-called "retention growth" method, which, to the best of the Company's knowledge, has never been adopted by this Commission. I&E complains that the RD's growth rate is too high because it selectively excluded two companies from the Proxy Group. In fact, the RD adopted I&E's own proposal regarding the Proxy Group. I&E challenges the RD's adoption of I&E's own proposal. The RD's DCF growth rate is fully supported by the record and should be adopted.

Operating Expenses. The RD adopted the Company's proposal on several operating expense issues, including: vegetation management; the Company-Owned Services Program ("COS Program"); storm damage expense; and employee activity expense. As to each of these issues, the RD is fully supported by the record evidence and in each instance, the proposed adjustment by I&E is inconsistent with the cross-examination testimony of I&E's own witness, Commission precedent, and/or well-established ratemaking practices.

Act 40. The Company has fully complied with the requirements of Act 40. The OCA's arguments are inconsistent with the plain language of the Act, ignore the evidence presented by the Company, and if adopted, would effectively re-establish a consolidated tax savings adjustment in direct contravention of the intent of the Legislature.

Allocated Class Cost Of Service Study ("ACOSS") And Revenue Allocation. OCA asks the Commission to disregard the minimum system method, which has been the standard for every electric distribution company ("EDC") in the Commonwealth for at least the last 40 years and was most recently affirmed by the Commission in the *PPL 2012 RC Order*.[1] The minimum system method properly reflects the obvious fact that the design of a utility system will vary, at least in part, with the number of customers on the system. The Company's method reflects this reality; the OCA's method does not.

Residential Customer Charge. The RD's adoption of UGI's Electric's proposed $14 residential customer charge is fully supported by the Company's cost allocation study. I&E and OCA complain that a $14 customer charge would violate principles of gradualism in rate design. This argument is incorrect, and in particular ignores the fact that the customer charge will only be $14 if the full revenue increase is granted given the RD's suggested scale back for customer charges.[2] At the RD's $2.8 million number, the customer charge would be $7.99. Also, for illustration, at a $5 million revenue increase the customer charge would be $10.75.

Quarterly Earnings Report ("QER"). The RD correctly determined that I&E's proposal regarding QERs is irrelevant to a base rate proceeding and that I&E improperly seeks to establish a statewide rule applicable to all fixed utilities in a base rate proceeding for a single small EDC.

[1] *Pa. Pub. Util. Comm'n, et al., v. PPL Elec. Util. Corp.*, Docket Nos. R-2012-2290597, et al., (Order Entered Dec. 28, 2012) ("*PPL 2012 RC Order*")

[2] UGI Electric has excepted to the RD's scale back. *See* UGI Electric Exc. No. 9.

II. REPLIES TO EXCEPTIONS OF OTHER PARTIES

1. The Parties' Exceptions To The RD's Use Of End Of Year Data For The FPFTY Are Inconsistent With The Plain Language of Act 11 And Long-Standing Commission Precedent. RD, pp. 13-22; UGI Electric MB, pp. 25-34; UGI Electric RB, pp. 9-13.

I&E, OCA, and OSBA except to the RD's adoption of UGI Electric's approach for calculating the FPFTY. *See* I&E Exc. No. 2; OCA Exc. No. 1; OSBA Exc. No. 1. Specifically, the RD embraced the Company's end of test year methodology, rather than the average test year methodology advocated by I&E, OCA, and OSBA. The parties rehash the arguments they raised on brief, which were fully considered and rejected by the RD. These arguments continue to ignore the Commission's uniform historic practice of employing end of test year data in setting rates, the plain language of the statute, the objective of the General Assembly, and the protections already provided in Act 11.

Throughout its history, the Commission typically employed the end of test year balance for plant in service, including future test year periods. The plain language of Act 11 supports the Company's use of "a future test year or a fully projected future test year, which shall be the 12-month period beginning with the first month that the new rates will be placed in effect after application of the full suspension period permitted under section 1308(d)." 66 Pa. C.S. § 315(e). Section 315(e) also provides that "the commission may permit facilities which are projected to be in service during the fully projected future test year to be included in the rate base." No evidence has been presented to support a conclusion that the General Assembly was redefining the basic concept of a test year in its adoption of Act 11 except to permit the use of a "fully projected future test year".

Ignoring the plain language and intent of Act 11, the parties instead advocate a new and unsupported approach to calculating the test year. In this proceeding, the parties contend that the most basic premise of the Commission's "end of test year" ratemaking practice, which has been

in use for decades, should be rejected. The parties have tortuously redefined the phrase "in service during", so that plant placed in service during the FPFTY is only partially accounted for in rate base. No party cites to a Pennsylvania case where the Commission has ever used an average rate base approach. The language of Act 11 supports the use of a fully projected future test year, using the same language adopted in 1976 to allow for the use of a future test year. There is simply no reason to depart from the Commission's long-standing practice of using end of test year data.

Further, the clear purpose of Act 11 was to reduce regulatory lag by matching up the Company's expenditures with the first year new rates are in effect. OCA acknowledges that the Company's proposal will accomplish the General Assembly's goal of reducing regulatory lag. OCA Exc. No. 1, p. 4. Yet, in this proceeding, the principal concern raised by the parties is that customers will pay rates which are calculated to include plant that is not in service and therefore not used and useful. Act 11, however, expressly states that Section 1315 (the section of the Code which codifies the used and useful standard) does not apply to Act 11 and imposes no limitation on including in rate base all plant added "during" the FPFTY. UGI Electric MB, pp. 28-29; RB, p. 10. The concern with plant not yet placed in service is also inconsistent with the Commission's historic practice of including items in rate base before they were in service. Prior to the passage of Act 11, the Commission reflected in rates certain construction work in progress that was projected to be in service in the first six months after the end of the future test year.[3] This was also true for land held for future use.[4] Adopting the average test year approach would effectively limit the FPFTY to slightly more than what pre-Act 11 rate base included, while excluding half of the plant that will be placed in service in the fully projected future test year.

[3] *See, e.g., Pa. Pub. Util. Comm'n, v. Pennsylvania Power Co.*, 58 Pa PUC 305, 60 PUR4th 593 (1984).
[4] *See, e.g., Pa. Pub. Util. Comm'n, et al., v Pennsylvania Power & Light Co.*, 54 Pa PUC 645 (1981).

The excepting parties also misstate the impact of adopting UGI Electric's proposal. They argue that the end of test year methodology will overstate the Company's actual experience. *See* I&E Exc. No. 2, p. 8; OCA Exc. No. 1, p. 3. OSBA goes so far as to say that if the RD is adopted, it "results in a scenario where ratepayers will be charged on Day 1 for all facilities projected to be in operation on Day 365." OSBA Exc. No. 1, p. 6. Similarly, I&E argues that adoption of the end of test year methodology will cause the Company to overearn on its rate of return until the end of the FPFTY. I&E Exc. No. 2, p. 8. As OCA's own witness acknowledged, this is simply not correct. The rates set in this proceeding are based on a test year, not a test month or a test day, and will appropriately reflect the annual revenue requirement for all plant added during the test year. For billing purposes this annual revenue requirement will be collected in 12 monthly increments. Tr. 137:9-16. Contrary to the claims of the parties in exceptions, customers will not pay in full or in advance for plant that is not yet placed into service. By the end of the 12 month period, the customer will have paid the full annual revenue requirement associated with plant placed into service that year, no more and no less. This is fully consistent with the General Assembly's goal of reducing regulatory lag by matching the Company's experienced capital commitments with recovery of those costs in FPFTY rates.

Moreover, the average test year methodology advanced by the parties does not avoid its claimed "problem" of charging customers for plant not yet placed in service, and instead merely undermines the General Assembly's effort to address regulatory lag. The average FPFTY approach will undercharge customers for plant being placed in service throughout the year because they will be charged only for half of the plant placed in service during the FPFTY and the Company will underearn its actual revenue requirement. Simply put, the Company's proposed methodology, when applied in 12-month increments, will ensure that customers pay the

appropriate amount on an annual basis and not experience the deficiency built into the "average test year" method. It is the parties' average approach that creates a fundamental mismatch and undermines the goals of Act 11.

OCA argues that the Commission should consider the Illinois Commerce Commission's use of an average test year approach in interpreting Act 11. OCA Exc. No. 1, p. 4. The RD correctly concluded that it is not appropriate or relevant to consider another state's statutory approach in the interpretation of a Pennsylvania statute.[5] OCA, in its exceptions, points to the Commission's recent rulemaking on alternative ratemaking, wherein the Commission looked to other jurisdictions for guidance. However, the alternative ratemaking rulemaking is clearly distinguishable for two reasons. First, 66 Pa. C.S. § 1330 authorizes the Commission to adopt alternative ratemaking mechanisms, but empowers the Commission to determine which mechanisms will be appropriate. This is clearly different from the plain language of Act 11, which applies to plant placed in service "during" the "fully projected" future test year, with no legislative change as to how "test year" is defined. There is no reference to average test year, or a partial reflection of plant added "during" the test year, and there is no invitation for the Commission to use its discretion to abandon the well-established application of a test year to set rates. Second, the Commission referenced other jurisdictions in the context of a rulemaking, where many parties and Commission staff will have opportunity to fully research how these other states balance various ratemaking factors. Here, OCA seeks to use another jurisdiction's

[5] *See, e.g.*, *Performance Metrics & Remedies (PMO III F0013) 2008 Guidelines Updates*, 2008 Pa. PUC LEXIS 1105, at *19-20 (Order entered July 22, 2008) ("[W]hether the NY PSC has adopted a particular change for use in NY…does not control Pennsylvania's decision to adopt or reject a particular change for use in Pennsylvania"); *Petition for Declaratory Order Regarding Ownership of Alt. Energy Credits, Associated with Non-Utility Generating Facilities Under Contract to Pa. Elec. Co. and Metro. Edison Co.*, 2007 Pa. PUC LEXIS 7, at *26-27 (Order entered Feb. 12, 2007) (stating that neither the ALJ nor the Commission grounded their decisions on the analysis of the decisions of foreign jurisdictions); *see also Elder v. Orlucky*, 515 A.2d 517, 522 (Pa. 1986) (noting that it was not appropriate to consider another jurisdiction's statute where there was no indication that the General Assembly based Pennsylvania legislation on legislation adopted in other jurisdictions)

interpretation of a dissimilar statute to interpret a Pennsylvania statute in application to UGI Electric on only one component in the full ratemaking analysis. As the RD correctly concluded, it would be manifestly unfair to apply one component of Illinois ratemaking to UGI Electric without a full understanding of all of the components of Illinois ratemaking.[6]

Finally, I&E and OCA express concern that use of the end of test year methodology will include plant that is never placed in service. OCA's position dismisses the protections provided by the legislature.[7] However, the clear language of Section 315(e) provides that the Commission may audit FPFTY results after the fact to determine whether or not they were accurate and authorizes the Commission "to adjust the utility's rates" on the basis of the audit. The RD correctly concluded that the statutory protections provided by Act 11 were sufficient to address the concern that projected plant will not be placed in service. The Commission should affirm the RD's interpretation of the sufficiency of the protections created by the General Assembly as part of Act 11.

Finally, OCA and I&E have excepted to the RD's conclusions as to Employee Additions Expense, Annual Depreciation Expense, Salaries and Wages Net of Employee Additions, Power Supply Expense, and the Excess Accumulated Deferred Income Tax rate base deduction,[8] because these adjustments are directly tied to the RD's adoption of the end of FPFTY methodology.[9] The Commission should adopt the RD's conclusions on these claims, and should

[6] RD at p. 21. Illinois has formula rates for some utilities, where the ROE component of that formula is established by statute. The comparison to Illinois is inapplicable because the ultimate rate paid by customers under a formula rate would not change based upon the use of an average or end of year rate base. Further, under both methodologies available in Illinois, rates are trued up at the end of the year to match the utility's actual costs.
[7] OCA Exc. No. 1, p. 5. I&E's exception ignores the protections provided by Act 11, but notes that its average test year approach would "mitigate" any overstatement, albeit by creating an understatement. I&E Exc. No. 2, pp. 9-10.
[8] To the extent that the Commission adopts the RD's proposed rate base deduction for EADIT, which it should not, the OCA's proposal to use the average rate base methodology to determine this amount should be rejected. *See* UGI Electric MB, pp. 120-127; UGI Electric RB, pp. 54-55; UGI Electric Exc. 5.
[9] *See* OCA Exc. Nos. 3, 4, and 7; I&E Exc. Nos. 8, 9, 12, and 13.

reject these additional exceptions for the reasons stated in this section, as well as in the RD, and the Company's Main and Reply Briefs.

2. I&E's And OCA's Exceptions To The RD's Proposed 10.0% Cost Of Common Equity Should Be Denied. RD, pp. 54-90; UGI Electric MB, pp. 71-106; UGI Electric RB, pp. 35-50.

UGI Electric has demonstrated that its cost of common equity of 11.25% is appropriate, and that the cost of common equity must be at least 10.40%.[10] UGI Electric's cost of common equity presentation attributes appropriate weight to multiple cost of common equity methodologies, considers unrebutted evidence of rising interest rates and other risks that are expected to exist during the FPFTY, and adheres to the long-standing requirement established by the United States Supreme Court and the Pennsylvania appellate courts that a cost of common equity analysis must be based on informed judgment. As such, the Commission should adopt a cost of common equity of 10.40% or higher in this proceeding. *See* UGI Electric Exc. No. 1.

I&E and OCA except to the RD's recommended 10.00% cost of common equity (inclusive of a 20 basis point adjustment for management effectiveness). *See* I&E Exc. 14-17; *see also* OCA Exc. 5-6. Both parties contend that the RD overstates the cost of common equity by: (1) adopting an overstated growth rate in its Discounted Cash Flow ("DCF") analysis;[11] (2) using an overstated historical Capital Asset Pricing Model ("CAPM") analysis as a check on the DCF;[12] and adopting a 20 basis point adjustment for management effectiveness.[13] OCA additionally argues that the RD incorrectly ignored evidence of an historical long-term low-cost capital environment. OCA Exc. 5.D. The RD properly rejected each of these arguments.

[10] UGI Electric Exc. No. 1; UGI Electric MB, pp. 71-106; UGI Electric RB, pp. 35-50.
[11] I&E Exc. No. 14; OCA Exc. No. 5.B.
[12] I&E Exc. No. 15; OCA Exc. No. 5.C.
[13] I&E Exc. No. 16; OCA Exc. No. 6.

A. I&E's And OCA's Exceptions To The RD's Proposed DCF Growth Rate Should Be Rejected. I&E Exc. 14; OCA Exc. 5.B.

Both I&E and OCA except to the growth rate used by the RD in its DCF analysis.[14] OCA argues that the RD erred by failing to consider the retention rate in arriving at the proposed growth rate.[15] I&E argues that the RD errs by excluding companies with allegedly low growth rates, resulting in the RD's "Altered Proxy Group," to drive up the ultimate DCF results.[16] Based on these criticisms, I&E and OCA argue that the Commission should adopt the growth rates proposed by their respective witnesses and adopt a lower DCF cost rate.[17] As explained below, each of these arguments should be rejected.

OCA's suggestion that the Commission should consider retention rate (*i.e.* "b x r") in calculating a DCF cost rate ignores long standing Commission precedent. The OCA witness has presented this argument multiple times over many years, yet OCA cites to no instance where the Commission has adopted his "b x r" formulation of the DCF analysis. Moreover, Mr. Moul fully explained why the "b x r" retention rate criteria is inappropriate and, if adopted, would tend to artificially reduce stock prices down to book value. UGI Electric St. No. 5-R, pp. 18-19.[18] Therefore, OCA's arguments regarding the "b x r" formulation of the DCF analysis should be rejected.

I&E's argument that the Commission excluded companies from UGI Electric's proxy group based on those companies' "low growth rates" is inaccurate and seriously misstates the RD's analysis. The RD did not exclude certain companies from the proxy group based upon those companies' growth rates. Rather, the RD adopted I&E's own criterion (*i.e.* the percentage

[14] I&E Exc. No. 14; OCA Exc. No. 5.B.
[15] OCA Exc., p. 12.
[16] I&E Exc., p. 23.
[17] OCA Exc., p. 12; I&E Exc., p. 25.
[18] OCA's argument is incomplete. If the growth rate is lower due to use of "b x r", then stock prices will fall and dividend yield will increase. OCA has not reflected this impact in its analysis and therefore understates the DCF cost of equity.

of revenues devoted to utility operations) to exclude Exelon Corp. and Public Service Enterprise Group from UGI Electric's proxy group, which resulted in the RD's "Altered Proxy Group."[19] I&E's conclusion that "[t]here is absolutely no reason, as noted by Mr. Spadaccio, to remove the referenced companies [Exelon Corp. and Public Service Enterprise Group], as they were legitimately included in the proxy group based on the relevant criteria,"[20] ignores the fact that the RD excluded these companies under a proposal advanced by I&E itself. *See* I&E St. No. 2, pp. 7-11.[21] I&E, in essence, excepts to the RD's adoption of its proposal. Regardless of whether these companies had "low growth rates" in comparison to the companies included in the RD's Altered Proxy Group, neither company was excluded from the Altered Proxy Group due to their growth rate. Therefore, I&E's exception regarding the RD's proposed growth rate under the DCF analysis should be rejected.

B. I&E's And OCA's Exceptions To The RD's CAPM Analysis Should Be Denied. I&E Exc. 15; OCA Exc. 5.C.

Both I&E and OCA except to the RD's use of the arithmetic mean to calculate the total market return under the CAPM method. OCA argues that the geometric mean should have been used to calculate the total market return under the CAPM method.[22] I&E similarly argues that the use of the geometric mean is the generally accepted method.[23] UGI Electric demonstrated that the use of the arithmetic mean is an accepted and appropriate method to calculate the total market return under the CAPM method. UGI Electric RB, pp. 47-48. Importantly, unlike the geometric mean, "the arithmetic mean provides an unbiased estimate, provides the correct

[19] RD, p. 64 ("We are persuaded that percentage of regulated revenues is a better criterion than percentage of regulated assets…Thus, we will exclude Exelon Corp. and Public Service Enterprise Group from UGI Electric's proxy group (Altered Proxy Group)." (emphasis added)).
[20] I&E Exc., p. 23.
[21] Mr. Spadaccio specifically states on pages 10-11 of his direct testimony that exclusion of Exelon Corp. and Public Service Enterprise is appropriate because they "violate my first criterion that dictates that 50% or more of a company's revenue must be generated from regulated electric utility operations."
[22] OCA Exc., pp. 13-16.
[23] I&E Exc., pp. 25-26.

representation of all probable outcomes, and has a measurable variance." UGI Electric St. No. 5-R, p. 28. Therefore, the exceptions of I&E and OCA on this issue should be rejected.

C. OCA's Arguments Regarding A Long-Term, Low-Interest Rate Environment Should Be Rejected. OCA Exc. 5.D.

OCA further excepts to the RD's cost of common equity determination by arguing that a long-term, sustained low cost of capital environment should be reflected in the Commission's common equity determination.[24] OCA's principal support for this argument is Mr. Rothschild's testimony that the companies currently operate "in a long-term period of low costs for capital."[25] It further posits that the historic trend from the peak of 30-Year U.S. Treasury Yields in 1981 to March 31, 2018 indicates that investors expect lower-returns on their capital investments.[26] These arguments are flawed and should be rejected for five reasons.

First, OCA's attempt to establish a cost of common equity based primarily upon historic trends ignores the fact that ratemaking is prospective.[27] UGI Electric has employed a FPFTY in this proceeding and, therefore, its cost of common equity must necessarily be based upon the prospective financial conditions that will exist in the FPFTY.

Second, UGI Electric demonstrated that the current and prospective financial climate is marked by rising interest rates.[28] UGI Electric demonstrated that there have been six (6) one-quarter percentage point increases to the Federal Funds rate since the Federal Open Market Committee ("FOMC") began to normalize interest rates and that, going forward, there is the

[24] *See* OCA Exc., pp. 16-17.
[25] OCA Exc., p. 16.
[26] OCA Exc., p. 17.
[27] *Pennsylvania Gas and Water Co. v. Pa. Pub. Util. Comm'n*, 79 Pa. Commw. 416, 470 A.2d 1066 (Pa. Cmwlth. 1984) (explaining that ratemaking principles require prospective ratemaking based upon a test year).
[28] UGI Electric MB, pp. 88-91; UGI Electric RB, pp. 36-37.

expectation of three additional interest rate increase in 2018 and three increases in 2019.[29] As interest rates rise, so too do investors' expectations of return on common equity investments.

Third, economists and financial forecasters also expect long-term interest rates to increase, which increases the return on common equity required to attract sufficient capital investments of this class. UGI Electric St. No. 5-R, pp. 7, 33. Indeed, both OCA and I&E acknowledged this trend in their testimony.[30] OCA's exception simply ignores this fact and attempts to justify the cost of common equity in a future period based upon the conditions existing in the historical capital markets.

Fourth, UGI Electric demonstrated that OCA's proposal to rely upon historical information would ignore the returns that investors can expect to earn on investments of comparable risk, *e.g.*, other electric utilities. UGI Electric MB, p. 91. The RD recognized that the average equity return for electric utilities was 9.75% in the first quarter of 2018,[31] and that the projected return on equity for the Electric Group during the FPFTY is 11.00%, according to Mr. Rothschild, which represents a benchmark for the types of returns that investors expect for electric utilities. UGI Electric MB, p. 91.

Finally, Mr. Rothschild's data regarding 30-Year U.S. Treasury Yields strongly suggests that the Commission should approve a cost of common equity of no less than 10.40%. The workpapers associated with Chart 4 in OCA St. No. 3 show that the March 2018 yield was 3.071% as compared to a 2.952% yield in December 2012, *i.e.* the time at which the rates were

[29] *See* UGI Electric MB, p. 74; *see also* UGI Electric St. No. 5-R, pp. 7, 33. In addition, subsequent to the filing of rebuttal testimony, the FOMC increased the fed funds rate twice in 2018 and two additional increases are expected following the increases on March 21, 2018 and June 20, 2018.

[30] *See* I&E St. No. 2, p. 26 (noting the yield on the 10-year Treasury Bond is expected to range between 2.90%-3.20% from Q3 2018 to Q2 2019, and is forecasted to increase to 3.60% from 2019 to 2023); OCA St. No. 3, p. 16 (citing March 21, 2018 Federal Reserve press release stating that "economic conditions will…warrant further gradual increases in the federal funds rate.").

[31] *See* RD, p. 89.

approved in the *PPL 2012 RC Order*.[32] If the Commission determines that the OCA's data regarding 30-Year U.S. Treasury Yields is relevant to establishing a prospective cost of common equity, then it should approve a cost of common equity of no less than 10.40%, consistent with the *PPL 2012 RC Order*.

D. I&E's And OCA's Exceptions To The RD's Adjustment For Management Effectiveness Should Be Denied. I&E Exc. 16; OCA Exc. 6.

I&E and OCA also except to the RD's proposed twenty basis point adjustment to the cost of common equity for management effectiveness. OCA argues that the adjustment is not a factor in reasonable investment decision making and was unsupported.[33] I&E similarly argued that management effectiveness adjustments should be made on a case-by-case basis and reiterated the arguments in its briefs.[34] I&E further suggests that UGI Electric's decision to properly file supplemental direct testimony regarding the impacts of the Tax Cuts and Jobs Act of 2017, Pub. L. 115-97, 131 Stat. 2054 ("TCJA") and the Company's QER filings demonstrate a management effectiveness adjustment is not warranted.[35] These arguments should be disregarded.

OCA's exception ignores the plain language of Section 523 of the Public Utility Code, 66 Pa. C.S. § 523.[36] Simply stated, the Commission may reward utilities through rates, particularly by way of rate of return premiums, for their performance. OCA's exception attempts to render Section 523 of the Public Utility Code a nullity.

OCA and I&E also ignore unrebutted evidence of UGI Electric's management effectiveness.[37] The RD properly explained that "[n]o other party disputed the company's claims about its various initiatives or accomplishments." RD, p. 86. UGI Electric demonstrated it was

[32] *PPL 2012 RC Order*, p. 101 (approving a 10.40% cost of common equity in December 2012).
[33] OCA Exc., p. 18.
[34] I&E Exc., pp. 26-27.
[35] I&E Exc., p. 27.
[36] RD, pp. 83-86; UGI Electric MB, pp. 103-106; UGI Electric RB, pp. 48-50.
[37] UGI Electric MB, pp. 103-106; UGI Electric RB, pp. 48-50.

entitled to the requested twenty basis point adjustment by way of these various initiatives and consistent recognition for high customer satisfaction. RD, p. 86.

Finally, I&E's suggestion that UGI Electric's decision to properly file supplemental direct testimony regarding the impacts of the TCJA and the Company's QER filings somehow demonstrate the RD's adjustment is in error. I&E's suggestion that UGI Electric should be penalized for either the timing or nature of its litigation position regarding the TCJA impacts is procedurally and substantively improper. Essentially, I&E argues management performance should not be evaluated based on a utility's performance vis-à-vis its customers, but on its behavior in its latest base rate case vis-à-vis I&E's position. This request is untethered from law and logic and should be disregarded. In addition, I&E's argument regarding the QERs is an attempt to resurrect an issue the RD properly concluded is both irrelevant to the instant base rate proceeding and more appropriately resolved in other proceedings. RD, pp. 133-134; *see, infra*, at pp. 24-25. The Commission should affirm the RD in this regard and once again reject I&E's attempt to litigate this issue in this base rate proceeding.

E. Conclusion As To The Cost Of Common Equity.

UGI Electric has demonstrated that it is entitled to a cost of common equity of no less than 10.40%.[38] I&E's and OCA's exceptions regarding the RD's cost of common equity largely reiterate the same arguments that were properly rejected by the RD when it established a 10.00% cost of common equity. The exceptions of I&E and OCA regarding the RD's cost of common equity should be rejected and, to the extent the Commission modifies the cost of common equity established by the RD, the Commission should adopt the proposals set forth in UGI Electric's Exceptions and briefs.

[38] UGI Electric Exc. No. 1; *see also* UGI Electric MB, pp. 74-106; UGI Electric RB, pp. 35-50.

3. Exceptions To UGI Electric's Expense Claims Misstate the Record, Ignore Well-Established Ratemaking Principles, Are Contrary To Relevant Precedent And Should Be Denied.

A. I&E's Vegetation Management Expense Exception Should Be Rejected. RD, pp. 30-31; UGI Electric MB, pp. 44-47; UGI Electric RB, pp. 19-20.

I&E excepts to the RD's approval of UGI Electric's full vegetation management claim of $2,118,501. *See* I&E Exc. No. 5, pp. 12-14. Specifically, I&E argues that a petition for deferred accounting is the appropriate avenue for recovering the "extraordinary expense" of addressing the Emerald Ash Borer ("EAB"). The Commission should reject this exception as contrary to basic ratemaking theory and Commission precedent. First, a petition for deferred accounting is only appropriate for an extraordinary and non-recurring event.[39] However, the Company's testimony shows that the impact of the EAB is anticipated to last for many years, and thus it is a recurring event.[40] Second, deferred accounting is a remedy exclusively used between base rate proceedings.[41] The claimed increase in expenses will occur in the test year, and therefore it is appropriate to include it in rates as part of this proceeding. If the expense is extraordinary or non-recurring, the remedy is to amortize the expense in rates, not to defer the expense for future recovery. As explained above, however, no party, including I&E, asserts the vegetation management claim is non-recurring. As such, full recovery is appropriate.

In addition to these fatal legal deficiencies, I&E's exceptions on vegetation management expense misstate the record in the following ways:

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[39] *See, e.g., Pa. P.U.C. v. Aqua Pennsylvania, Inc.*, Docket No. R-00038805, 236 PUR 4th 218, 2004 Pa. PUC LEXIS 39 at *48 (Order entered Aug. 5, 2004) (recurring expense traditionally claimed in base rate proceeding did not constitute an extraordinary and non-recurring expense); *Pa. Pub. Util. Comm'n v. Mechanicsburg Water Co.*, 80 Pa. PUC 212, 232 (Order dated July 22, 1993) (finding that an ongoing expense was not an extraordinary and non-recurring expense that could be recovered retroactively in rates).

[40] UGI Electric St. No. 3-R, p. 8 (EAB will impact the service territory for seven to ten years).

[41] *See, e.g., Petition of Mechanicsburg Water Co.*, Docket No. P-910500 (September 25, 1991) (The Commission granted authority to defer for accounting purposes capital and other costs but explained that cost recovery would be decided in the first rate case filed after the plant became operational.)

- I&E states that the Company "would be" adding an additional vegetation management crew. The Company has already added the crew, and did so in the middle of the future test year. UGI Electric St. No. 3-RJ, p. 5.
- I&E's own witness acknowledged that I&E's methodology would not account for the cost of the additional crew. Tr. 125:15-19; Tr. 130:20-23.

For these reasons, as well as those stated in the RD and the Company's Main Brief and Reply Brief, the Commission should deny I&E's exceptions on vegetation management expense, and affirm the conclusion reached in the RD.

B. I&E's Exception To The RD's Approval Of The Company's COS Program Should Be Denied. RD, pp. 31-34; UGI Electric MB, pp. 47-51; UGI Electric RB, pp. 20-24.

I&E excepted to the RD's approval of the COS Program proposed by UGI Electric, including the anticipated annual expense of $454,418. *See* I&E Exc. No. 6. In this proceeding I&E has advocated that the COS Program should be voluntary to customers. This position is contrary to the testimony of both the Company's expert engineering witness and I&E's own witness, who both concluded that a voluntary program will not provide the safety benefits that are provided by the Company's proposed program. UGI Electric St. No. 3-R, pp. 10-11; Tr. 120:1-19. I&E also argues that the Company has not inspected any of the services over the past 50 years. This, too, is contradicted by the record evidence produced by I&E – the $140,000 budget I&E recommends reflects the pre-program historic cost of addressing these services. I&E St. No. 1, pp. 30.[42] I&E's position on the COS Program was correctly rejected in the RD because it does not adequately address the safety and service concerns identified by UGI Electric which are increasing at an accelerated pace as the facilities age. For the reasons identified in the RD, and fully explained in the Company's Main Brief and Reply Brief, I&E's exception should be denied, and UGI Electric's COS Program should be adopted as proposed.

[42] As the Company noted in its testimony, the $454,00 program includes $314,000 of previously unbudgeted expense. UGI Electric St. No. 3, p. 15; UGI Electric Exhibit A, Schedule D-15.

C. The Exceptions of I&E and OCA Regarding Storm Damage Expense Ignore Uncontradicted Evidence And Should Be Denied. RD, pp. 36-38; UGI Electric MB, pp. 55-57; UGI Electric RB, pp. 25-27.

The exceptions of I&E and OCA addressing the RD's adoption of the Company's updated storm damage expense claim should be denied,[43] because they ignore record evidence that was not opposed by any party, and both clearly understate the Company's storm related expenses. Both I&E and OCA seek to exclude the most recent data on the Company's storm expenses from this case, which is contrary to the Commission's requirement that utilities update their data as part of an ongoing rate case and inconsistent with other claims in this case. *See, e.g.*, Materials and Supplies, UGI Electric MB, p. 40. I&E advocates for the use of a five year average, but would use stale data on storm expense, even though I&E's witness acknowledged that excluding 2018 would understate the Company's storm expense. Tr. 123:14-19. I&E's own witness agreed that the 2018 data was accurate, and that including it would more accurately reflect the Company's storm related expenses without any possibility of overstating them. Tr. 124:2-11.

OCA's position is internally inconsistent in two ways. First, it seeks to exclude the 2014 storm, because it would represent retroactive recovery, but also excludes the 2018 storm, which would not be retroactive recovery. This positioning is illogical because it leaves the Company with no avenue to establish or support a claim. Second, its claim of retroactive recovery is incorrect. Both I&E and UGI Electric agree that using a five year average produces a normalized storm expense claim that is most likely to reflect the Company's operating circumstances on a going forward basis. The storm expense claim does not recover the costs associated with the 2014 storm – it merely uses the data generated from that storm as a relevant data point in determining future expense.

[43] I&E Exc. No. 7, pp. 15-16; OCA Exc. No. 2, pp. 6-7.

For the reasons found in the RD, and in the Company's Main and Reply briefs, the exceptions of I&E and OCA on the calculation of the Company's storm damage expense should be denied.

D. I&E's Exception To The Adjusted Outside Services Employed Expense Is In Error and Should Be Denied. RD, pp. 43-44; UGI Electric MB, pp. 60-61; UGI Electric RB, pp. 29-30.

I&E excepts to the RD's decision on Outside Services Employed, claiming there is insufficient evidence to support the RD's conclusion. *See* I&E Exc. No. 10. However, the RD correctly adopted only those expenses identified by UGI Electric which had evidentiary support,[44] which resulted in the RD accepting only 39% of the Company's original claim. The RD correctly rejected I&E's reliance on historic account balances for Outside Services Employed, which UGI Electric had shown understated the Company's expenses due to a mismatch between FERC Accounts for budgeting and book purposes. UGI Electric St. No. 4-R, p. 9. The RD correctly weighed the evidence presented on Outside Services Employed, and I&E's exception should be denied.

E. I&E's Exception On Employee Activities Ignores The Testimony Of Its Own Witness. RD, pp. 44-46; UGI Electric MB, pp. 61-63; UGI Electric RB, pp. 30-31.

I&E's exception on Employee Activity expense asks the Commission to reject its historic approach to these expenses. *See* I&E Exc. No. 11. In doing so, I&E ignores that the Commission has acknowledged that employee appreciation events motivate employees, and that motivated employees provide better service to customers. Tr. 127. Much like the Commission's own Employee Appreciation Day, UGI Electric uses its event to recognize special employee milestones and employees that have gone above and beyond in their service. Tr. 127; *see also*

[44] Even I&E's witness acknowledged that the Company had provided data to identify the majority of its claimed expenses. *See* I&E St. No. 1-SR, p. 17.

UGI Electric St. No. 4-R, p. 10. From this testimony, the RD correctly concluded that UGI Electric's Employee Activity expense meets the legal standard articulated by the Commission in its precedent.[45] Inclusion of these expenses is consistent with the long-standing allowance of expenses that are reasonable and appropriate for the furnishing of service to customers.[46]

For the reasons identified in the RD, and fully explained in the Company's Main Brief and Reply Brief, the Employee Activity expense claimed by UGI Electric in this proceeding is appropriate for inclusion in rate base.

4. OCA's Exception Regarding The RD's Approval Of UGI Electric's Retention of Consolidated Tax Saving For UGI Electric's Stated Purposes Should Be Denied. RD, pp. 107-111; UGI Electric MB, pp. 127-133; UGI Electric RB, pp. 55-57.

UGI Electric demonstrated that the Company has complied with the directives of Act 40.[47] The RD properly concluded that the Company's presentation is consistent with the plain language of the statute and recommended that the Company be permitted to retain $75,400 in Act 40 savings for the Company's stated purposes. RD, pp. 110-111.

OCA excepts to the RD's determination and argues that UGI Electric's method for calculating consolidated tax savings does not comply with Act 40, and that UGI Electric did not demonstrate ratepayer benefits associated with the savings. *See* OCA Exc. No. 8. UGI Electric fully addressed these arguments in its briefs,[48] however, two points bear repeating. First, OCA's attempt to treat the entire amount of the hypothetical CTA as customer supplied funds, similar to a contribution in aid of construction ("CIAC"), and deduct it from rate base, is improper and should be rejected for the reasons set forth in UGI Electric's Main Brief. UGI Electric MB, pp. 130-133. Second, the OCA's argument that UGI Electric did not provide "specific" information

[45] *See* RD, pp. 45-46, *citing Pa. Pub. Util. Comm'n v. York Water Co.*, Docket Nos. R-850268, R-850268C001 (Order entered Nov. 25, 1986).
[46] *Butler Township Water Co. v. Pa. P.U.C.*, 81 Pa. Cmwlth. 40, 43-44, 473 A.2d 219, 221 (1984).
[47] UGI Electric MB, pp. 127-133; UGI Electric RB, pp. 55-57.
[48] UGI Electric MB, pp. 127-133; UGI Electric RB, pp. 55-57.

about how the amounts would be used disregards the language of the statute; the statute contains no such requirement. UGI Electric RB, pp. 55-56. For these reasons and the reasons more fully explained in UGI Electric's briefs, OCA's exception regarding retention of consolidated tax savings should be denied.

5. I&E's Exception On Meter Read Lag Lacks Evidentiary Support And Should Be Denied. RD, pp. 25-26; UGI Electric MB, pp. 38-39; UGI Electric RB, p. 16.

I&E excepts to the RD's adoption of UGI Electric's meter read lag of 2.70 days. *See* I&E Exc. No. 3. I&E continues to assert that when UGI Electric installed a new software system, it should have seen a reduction in meter read lag. However, meter read timing was not within the scope of the new software system. UGI Electric St. No. 4-R, p. 8. I&E proposed a completely arbitrary reduction by 44%, for which I&E provides no basis.[49] Instead of relying on evidence, I&E supported its adjustment by relying on the experience of its accounting witness, who has no training or expertise in software applications.[50] The RD correctly rejected I&E's unsupported reduction in meter read lag. The Commission should affirm the RD, and deny I&E's exception on meter read lag.

6. I&E's Revenue Requirement Exception Should be Denied.

I&E excepted to the RD's overall revenue requirement of $91,881,000, instead proposing $89,850,000. *See* I&E Exc. No. 4. I&E's revenue requirement is far too low, and excludes legitimate rate base and expense items. For the reasons stated in the Company's Exceptions, these Reply Exceptions, and in the Company's Main and Reply Briefs, the Commission should adopt an overall revenue requirement of $96,797,000, and should deny I&E's exception.

[49] UGI Electric St. No. 4-R, p. 8; UGI Electric MB, p. 39.
[50] *See* I&E St. No. 1, Appendix A; Tr. 114-117.

7. OCA's Exception Regarding The RD's Adoption Of UGI Electric's ACOSS Is Factually Wrong, Has Been Repeatedly Rejected By The Commission, And Should Be Rejected. RD, pp. 111-120; UGI Electric MB, pp. 133-145; UGI Electric RB, pp. 57-62.

UGI Electric has demonstrated that its ACOSS is reasonable and should be adopted in this proceeding.[51] The Company's ACOSSs in this proceeding are based on the same methods (*i.e.* the "minimum system study") and criteria approved in the *PPL 2012 RC Order*. UGI Electric MB, p. 138. Indeed, the same expert, John Taylor, performed both the PPL Electric and UGI Electric cost of service studies. UGI Electric MB, p. 135. This same methodology was approved in PPL Electric's 2012 base rate case and is the same methodology used by all other Pennsylvania electric utilities.

OCA raises the same arguments in its exception as it did in its briefs, which were properly rejected by the RD. RD, pp. 119-120. UGI Electric has fully demonstrated that these arguments are without merit and should be rejected.[52] However, two specific points bear addressing. First, OCA argues that its study should have been used because it attributed upstream primary and secondary distribution plant as 100% demand related.[53] UGI Electric demonstrated that this argument has been repeatedly rejected by the Commission. UGI Electric MB, pp. 140-145. Indeed, OCA only points to the dissent of Former Commissioner Cawley in the *PPL 2012 RC Order*, ignoring the fact that the Commission specifically rejected OCA's position in that order. UGI Electric MB, p. 135. Second, OCA attempts to argue that the description of the minimum system in *Duquesne Light*[54] somehow supports its theory that there is no direct relationship between the number of customers and the size or cost of poles or

[51] UGI Electric MB, pp. 133-145; UGI Electric RB, pp. 57-63.
[52] UGI Electric MB, pp. 133-145; UGI Electric RB, pp. 57-63.
[53] OCA Exc. No. 9.B.
[54] *Pa. Pub. Util. Comm'n v. Duquesne Light Co.*, 1985 Pa. PUC LEXIS 68, at *231 (Order entered Jan. 25, 1985) ("*Duquesne Light*").

conductors.[55] OCA conveniently ignores the latter part of the Commission's description, which demonstrates that there is, in fact, a customer component associated with the size and cost of poles and conductors.[56]

8. OCA's Exception To The RD's Proposed Revenue Allocation Should Be Rejected. RD, pp. 120-122; UGI Electric MB, pp. 145-150; UGI Electric RB, pp. 62-63.

UGI Electric demonstrated that its proposed revenue allocation properly considered the cost to serve each customer class, and other factors, consistent with the Commonwealth Court's directive in *Lloyd*.[57] OCA's exception ignores that OCA's revenue allocation was rejected because it was based on OCA's clearly flawed cost allocation study. *See* OCA Exc. No. 10; RD, p. 119-120. Further, UGI Electric demonstrated that its revenue allocation, based on the Company's properly prepared ACOSS, gives appropriate consideration to factors other than the cost of service, including gradualism.[58] OCA's exception on revenue allocation should be rejected.

9. The Exceptions To The RD's Proposed Residential Customer Charge Should Be Rejected. RD, pp. 124-128; UGI Electric MB, pp. 152-161; UGI Electric RB, pp. 63-67.

UGI Electric demonstrated that its proposed $14.00 Rate R customer charge is just and reasonable.[59] As properly found in the RD, the proposed increase in the customer charge for Rate R is fully supported by the results of UGI Electric's reasonable cost of service study,[60] consistent with the cost to serve residential customers, properly reflects gradualism principles

[55] *See* OCA Exc., pp. 29-30; *see also* UGI Electric RB, pp. 58-61.
[56] *Duquesne Light*, at *231 ("Basically, it is a cost that measures customer density. If two customers are served from a pole, each customer would share the customer component of the pole. If only one customer were served from the pole, his customer component of poles would be twice that of the previous example.").
[57] *Lloyd v. Pa. P.U.C.*, 904 A.2d 1010, 1020 (Pa. Cmwlth. 2006) *appeal denied*, 591 Pa. 676, 916 A.2d 1104 (2007) ("*Lloyd*"); *see also* UGI Electric MB, pp. 145-150; UGI Electric RB, pp. 62-63.
[58] UGI Electric MB, pp. 145-150; UGI Electric RB, pp. 62-63.
[59] UGI Electric MB, pp. 152-161; UGI Electric RB, pp. 63-67.
[60] The cost of service study found that the fixed monthly cost to serve a residential customer was approximately $19.00. UGI Electric MB, pp. 151-152.

and will not have a disproportionate negative impact on low-income customers.[61] RD, pp. 126-127.

I&E and OCA except to the RD's conclusion.[62] They principally argue that the approved increase violates principals of gradualism in rate design and would adversely impact low income customers. As to gradualism, I&E and OCA ignore that gradualism applies to the rates as a whole and not to individual components of rate design. UGI Electric MB, pp. 155-156. Further, UGI Electric showed how its proposal had embraced the concept of gradualism. UGI Electric St. No. 8-R, p. 8. Finally, UGI Electric showed that its proposed customer charge was more beneficial to low-income customers than the charges proposed by OCA and I&E. UGI Electric MB, pp. 157-160.

Importantly, however, the customer charge recommended by the RD is not, in fact, $14.00 because the RD granted less than the Company's full requested revenue increase and, as such, adopted a scale back proposal, which would reduce the Rate R customer charge to approximately $7.99 at the stated RD revenue increase level. UGI Electric Exc., p. 38. For illustration, if the Commission approves a revenue increase of $5.0 million, it would result in a Rate R customer charge of $10.75 based on a proportional scale back proposal.[63] For the reasons more fully explained in UGI Electric's briefs, the Commission should approve the Company's proposed Rate R customer charge consistent with the revenue increase and any scale back ultimately granted in this proceeding.

10. I&E's Exception Regarding The RD's Scale Back Proposal Should Be Rejected. RD, pp. 130-131; UGI Electric MB, p. 165; UGI Electric RB, p. 69.

I&E excepts to the RD's scale back proposal. *See* I&E Exc. No. 19. To the extent that

[61] UGI Electric MB, pp. 152-161; UGI Electric RB, pp. 63-67.
[62] I&E Exc. No. 18; OCA Exc. No. 11.
[63] As the Company argued in its exceptions, the Commission should not adopt the scale back proposal reflected in the RD, and should instead adopt the Company's proposal. *See* UGI Electric Exc. No. 9.

the Commission approves a rate increase that is less than the full amount requested by the Company, I&E's exception regarding scale back should be rejected and the Company's scale back proposal, as set forth in UGI Electric's briefs and exceptions should be approved.[64]

11. I&E's Exception To The RD's Exclusion Of Statewide QER Issues From An Individual Utility Base Rate Proceeding Should Be Denied. RD, pp. 132-134; UGI Electric MB, pp. 166-186; UGI Electric RB, pp. 70-77.

I&E excepted to the RD's exclusion of I&E's challenge to the methodology for calculating the QER. *See* I&E Exc. No. 1. The RD specifically found that the challenge to the QER was not within the scope of a base rate proceeding, and that a determination on the calculation of the QER should be addressed "in a state-wide proceeding where all utilities that may be affected by resolution of this issue would have opportunity to participate." RD, p. 134.

I&E makes clear in its exceptions that it, in fact, seeks a statewide determination.[65] I&E encourages the Commission to deprive other affected utilities – from all parts of the utility industry – of procedural due process, by denying them the opportunity to comment on this important policy issue.[66] I&E would have the Commission use UGI Electric's rate case, and the facts associated with Pennsylvania's smallest major EDC, to accomplish a de facto rulemaking that would impact not only other EDCs, but gas, water, and wastewater companies, as well. While I&E states, without record support, that no other interested party could provide additional relevant information,[67] UGI Electric showed that more than a dozen other utilities are calculating the QER in a manner similar to UGI Electric. UGI Electric St. No. 1-R, p. 10. The Commission

[64] UGI Electric Exc. No. 9; UGI Electric MB, p. 165; UGI Electric RB, p. 69.
[65] I&E Exc., p. 5 ("I&E recommends that the Commission clarify and/or establish uniform and industrywide financial reporting requirements for the quarterly earnings reports designed so the Commission can monitor the financial performance and earnings of the electric, gas, telephone, water, and wastewater public utilities that are subject to Commission jurisdiction.")
[66] *See West Penn Power Company v. Pennsylvania Public Utility Commission*, 174 Pa. Superior Ct. 123, 131, 100 A.2d 110 (Pa. Super. 1953) (Commission is subject to the requirement that there be adherence to the fundamental principles of fairness and to the constitutional guarantees of due process).
[67] I&E Exc., p. 4.

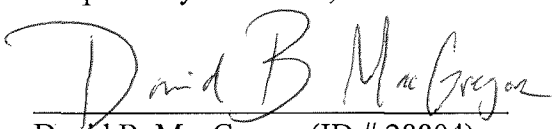
should affirm the RD's determination that the QER issue is outside the scope of this base rate proceeding, and should instead be addressed in a proceeding where the entire utility industry and other interested parties are given the opportunity to share how any change in the Commission's approach might impact their operations.

For the reasons stated here, and more fully explained in the RD and the Company's Main and Reply Briefs, I&E's exception should be denied and QER issues should not be addressed in this proceeding.

III. CONCLUSION

Wherefore, for the foregoing reasons, and those set forth in the Recommended Decision and UGI Electric's Main and Reply Briefs, the Exceptions of the other parties should be denied.

Respectfully submitted,



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