PENNSYLVANIA PUBLIC UTILITY COMMISSION
HARRISBURG, PENNSYLVANIA 17105

Pennsylvania Public Utility Commission et al. v. UGI Utilities, Inc. – Electric Division	**Public Meeting: October 4, 2018** **2640058-OSA** **Docket No. R-2017-2640058**

STATEMENT OF VICE CHAIRMAN ANDREW G. PLACE

Before the Pennsylvania Public Utility Commission (Commission) for consideration and disposition is the UGI Utilities, Inc. – Electric Division's (UGI Electric or the Company) request to increase its annual jurisdictional distribution operating revenues.

I would like to express my thanks to Administrative Law Judges (ALJs) Steven K. Haas and Andrew M. Calvelli for their thorough review and insightful Recommended Decision on the issues before us. Our determinations on the formal polling of issues before us today upholds the vast majority of their recommendations. I am also appreciative of the insights offered by all the parties, including the Office of Consumers Advocate (OCA), the Office of Small Business Advocate (OSBA), and the Bureau of Investigation and Enforcement (I&E). Without each of these participants, our decision making would be severely handicapped.

As to the formal polling of issues, I have departed from the majority on a few issues and wish to briefly articulate the reasons for these positions.

As to polling issue #8, I concur with the ALJs and I&E. The Company's last rate case was in 1996 – 22 years ago. It seems abundantly reasonable, in fact perhaps generous, to amortize this rate case expense over 5 years, instead of three as proposed by UGI Electric.

As to polling issue #13, again, I concur with the ALJ and I&E, that the Allocated Stock Options and Restricted Stock Awards should not be recoverable in future rates, as the evidentiary record clearly documented that the stock components are primarily based on financial metrics to determine actual payout. The main driver regarding recovery of incentive compensation revolves around enhancing the productivity and efficiency of the utility – including achievement of certain operational and consumer service goals which have clear benefits to consumers. While the Company did provide evidence that these criteria were met for cash bonuses, the Company did not carry its burden of proof regarding stock compensation programs.

As to polling issues #18 and #22, I do not find the final approved ROE just and reasonable. I largely concur with the ALJ's methodology for the DCF calculation of growth rates. However, I believe that the underlying treatment of the data used does not produce a just and reasonable rate. Careful examination of the rates for FirstEnergy and Duke Energy show that there are clear outliers in the data set. Value Line is projecting a growth rate of 12%, relative to the two other rating agencies of 2% and 3.8% for FirstEnergy Companies. Similarly, Morning Star is predicting a growth rate of 9.1%, relative to the other rating agencies of 3.23%, 4.00%, 4.05%, and 4.50% for Duke Energy. If these demonstrative outliers are removed, the arithmetic mean of the eight proxy utilities drops from 5.99% to 5.48%. If the 3.95% dividend growth rate is added to this average, an adjusted ROE of 9.43% results. As this example makes clear, the use of a small set of proxy companies produces average growth rates with unacceptably large variances and skewed means. For this reason, it is substantively more arithmetically sound to use data sets with greater numbers of proxy companies of similar nature across the country, as well as an empirical criterion to identify growth rate outliers.

As to a management effectiveness adjustment, I believe that such adjustments may be appropriate – both up or down, especially when other performance-based incentives are not already included in rates. As for UGI Electric, their performance metrics, as independently verified in the public reports here at the PUC, establish near top performance results relative to other Pennsylvania utilities. They have below benchmark statistics for all their reliability metrics for the past three years [meaning performing well above expectations], their low complaint levels are best in class, and customer service representatives are rated at or near the top. In terms of areas for improvement, I encourage the Company to continue to improve on their call handling abandonment rates and calls not handled within 30 seconds. For this reason, I would, as a matter of principle, be willing to grant a management effectiveness adjustment reflecting the Company's overall positive performance. However, the ALJs' ROE is already overstated by at least 20 basis points.

As to polling issue #20, I find it more technically correct to use the geometric mean, as used by I&E, as opposed to the arithmetic mean used by the Company in the calculation of the historic CAPM.

Lastly, as to polling issues #26 and #27, I support OCA's Allocated Class Cost of Service Study. I believe that UGI Electric failed to adequately rebut OCA's argument that UGI's system services 62,000 customers and, under Company witness Taylor's approach, each customer is allocated 32 feet of primary distribution conductor line. The Company confirmed, however, that it extended its primary distribution facilities by an average of 1,350 feet to connect three of its largest customers to its distribution system, resulting in a misallocation of costs. OCA further argues that the minimum system method is flawed in that it does not account for the portions of each class' peak load that can be met by the minimum system itself. OCA witness Mierzwa testified that failing to recognize the load carrying capability (peak load carrying capability, or PLCC) inherent in the hypothetical minimum system, results in a double allocation of primary and secondary upstream distribution costs to residential customers. I do not believe the Company adequately addressed these issues in the record. I also believe the ALJs relied too heavily on the NARUC Manual reference and the isolated PPL rate case, when more than 30 percent of states do not practice such distribution system cost allocations to the customer category.

DATE: October 4, 2018

Andrew G. Place, Vice Chairman