

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2019-3015162
Office of Consumer Advocate	:	C-2020-3018289
Office of Small Business Advocate	:	C-2020-3018858
Calpine Energy Services, L.P.	:	C-2020-3019101
Micah Cameron	:	C-2020-3017207
David Torakeo	:	C-2020-3019355
Sarah Hanle	:	C-2020-3019824
Robert Zivny	:	C-2020-3021512
	:	
v.	:	
	:	
UGI Utilities, Inc. – Gas Division	:	

RECOMMENDED DECISION

Before
Christopher P. Pell
Deputy Chief Administrative Law Judge

TABLE OF CONTENTS

I. INTRODUCTION1

II. HISTORY OF THE PROCEEDING2

III. FINDINGS OF FACT.....9

IV. PUBLIC INPUT HEARING.....12

V. DESCRIPTION OF THE SETTLEMENT15

VI. TERMS AND CONDITIONS OF SETTLEMENT15

VII. LEGAL STANDARD.....28

VIII. DISCUSSION OF THE SETTLEMENT.30

 A. Stay out30

 B. Revenue Increase31

 C. Rate Design.....38

 1. Revenue Allocation38

 2. Rate Design44

 D. Customer Assistance Including Payment Troubled and Low-Income Customers.47

 1. In General47

 2. Customer Assistance Payment for Troubled and Low-Income Customers ...50

 E. COVID-19 Emergency Relief Program.....54

 F. Tariff Modifications and Consolidation.....57

 1. In General57

 2. Line Extensions57

 3. Rider F-Universal Service Program Modifications60

 4. Rate NNS and Rate MBS61

 5. Choice Supplier Tariff Rules.....62

 6. Other63

 7. Chapter 1763

 8. Uniform Distribution Rates and Riders.....64

 9. DSIC-Eligible Plant Balance.....67

 10. DSIC-Calculation Return on Equity.....68

G.	COVID Cost Deferral	69
H.	Accounting.....	73
	1. In General.....	73
	2. Environmental Cost Recovery.....	73
	a. Annual Environmental Expenses	73
	b. Amortization of Environmental Expense.....	74
	3. ADIT/EDFIT	75
	4. Repairs/Allowance	76
	5. Depreciation Rates	77
I.	Recommendation	77
IX.	CONCLUSIONS OF LAW	80
X.	ORDER.....	81

I. INTRODUCTION

In this base rate proceeding for UGI Utilities, Inc. – Gas Division (UGI Gas or Company), the settling parties were able to reach a Full Settlement of their disputes. Active parties who did not join in the Settlement provided statements indicating non-opposition to the Settlement.

UGI Gas originally sought an increase of \$74.6 million in annual distribution revenues in its initial filing with the Pennsylvania Public Utility Commission (Commission). The Settlement reached by the parties is designed to produce \$20 million in additional revenues. The parties proposed a three-step, phased in method for implementing the rate increase. Although the suspension period ends on November 19, 2020, the first step of the proposed phased-in rate increase is set to go into effect on January 1, 2021 and is designed to produce \$10 million of increased revenue on an annual basis. The second step of the proposed phased-in rate increase is set to go into effect on July 1, 2021 and is designed to produce an additional \$10 million on annual basis. In the third step of the proposed phase-in, \$6.16 million of deferred revenue will be recovered over the defined one-year period of October 1, 2021 through September 30, 2022 through a temporary increase to the otherwise applicable monthly customer charge.

Additionally, the parties proposed a number of changes to tariff provisions to be effective on the later of October 1, 2020 or on the first day after Commission approval. These proposed changes include Line Extensions, Rider F – Universal Service Program Modifications, Choice Supplier Tariff Rules, and several miscellaneous tariff changes. This decision recommends that the Commission approve the Joint Petition for Approval of Unopposed Settlement of All Issues without modification because it is in the public interest and supported by substantial evidence.

II. HISTORY OF THE PROCEEDING

On January 28, 2020, UGI Gas filed Supplement No. 6 to UGI Gas Tariff – Pa.P.U.C. Nos. 7 and 7S to become effective on or after March 28, 2020. Supplement No. 6 set forth proposed changes in rates, rules and regulations calculated to produce an increase of approximately \$74.6 million (8.5%) in annual revenues.

On January 30, 2020, Micah Cameron filed a formal Complaint to the proposed rate increase. The Complaint was docketed at C-2020-3017207.

On February 3, 2020, Scott B. Granger, Esq., entered a Notice of Appearance on behalf of the Commission's Bureau of Investigation and Enforcement (I&E).

On February 12, 2020, the Office of Consumer Advocate (OCA) filed a Public Statement, a Notice of Appearance on behalf of Phillip D. Demanchick, Esq., Barrett C. Sheridan, Esq., and Darryl A. Lawrence, Esq., and a formal Complaint. The Complaint was docketed at C-2020-3018289.

On February 14, 2020, the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA) filed a Petition to Intervene in this proceeding.

On February 19, 2020, the Commission on Economic Opportunity (CEO) filed a Petition to Intervene in this proceeding.

On February 21, 2020, the Office of Small Business Advocate (OSBA) filed a Verification, Public Statement, a Notice of Appearance on behalf of Steven C. Gray, Esq., and a formal Complaint. The Complaint was docketed at C-2020-3018858.

By Order entered on February 27, 2020, the Commission instituted an investigation into the lawfulness, justness, and reasonableness of the proposed rate increase. Pursuant to Section 1308(d) of the Public Utility Code, 66 Pa. C.S.A. § 1308(d), Tariff Gas- Pa.

P.U.C. Nos. 7 and 7S was suspended by operation of law until October 28, 2020, unless permitted by Commission Order to become effective at an earlier date. In addition, the Commission ordered that the investigation include consideration of the lawfulness, justness and reasonableness of UGI Gas' existing rates, rules, and regulations. The matter was assigned to the Office of Administrative Law Judge for the prompt scheduling of hearings culminating in the issuance of a Recommended Decision.

By letter dated February 27, 2020, Commissioner Ralph V. Yanora requested that parties to this proceeding examine the following issues:

1. Identification of those portions of the UGI Utilities, Inc. – Gas Division distribution system that may be characterized as low pressure; and
2. Compare the projections from the fully projected future test year in Docket No. R-2018-3006814 to actual capital expenditures, plant additions, and retirements.

In accordance with the Commission's February 27, 2020, Order, the matter was assigned to Deputy Chief Administrative Law Judge Christopher P. Pell.

On February 28, 2020, Direct Energy Business, LLC, Direct Energy Services, LLC and Direct Energy Business Marketing, LLC (Direct Energy) filed a Petition to Intervene in this proceeding.

On March 5, 2020, the Industrial Energy Consumers of Pennsylvania (IECPA) and the United States Department of Defense and all other Federal Executive Agencies (DOD/FEA) filed Petitions to Intervene in this proceeding.

In compliance with the Commission's February 27, 2020 Order, UGI Gas filed Supplement No. 8 to Tariff Gas – Pa. P.U.C. Nos. 7 and 7S on March 5, 2020 to reflect the suspension of Tariff Nos. 7 and 7S until October 28, 2020.

On March 6, 2020, Calpine Energy Services, L.P. (Calpine Energy) filed a formal Complaint. The Complaint was docketed at C-2020-3019101.

A Call-in Telephonic Prehearing Conference was held on March 9, 2020. Counsel for UGI Gas, I&E, OCA, OSBA, CAUSE-PA, CEO, Direct Energy, IECPA, DOD/FEA and Calpine Energy participated.

No party opposed the Petitions to Intervene filed by CAUSE-PA, CEO, Direct Energy, the IECPA, and the DOD/FEA. Accordingly, I granted the Petitions during the Prehearing Conference and memorialized their status in my March 10, 2020 Prehearing Order #1.

On March 10, 2020, UGI Gas filed a Motion for Protective Order pursuant to 52 Pa. Code §§ 5.362(a)(7) and 5.365(a).

On March 16, 2020, I&E filed a Motion to Suspend the Procedural Schedule During the Emergency Interruption of Normal Operations of the Pennsylvania Public Utility Commission and to Order the Parties to Amend and Establish a New Procedural Schedule Upon the Resumption of Normal Operations of the Commission.

On March 23, 2020, CAUSE-PA filed its Answer of the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania in Support of the March 16, 2020 Motion of the Bureau of Investigation and Enforcement.

On March 24, 2020, OCA filed its Answer of the Office of Consumer Advocate in Support of the Bureau of Investigation and Enforcement's Motion to Suspend the Procedural Schedule.

On March 24, 2020, a teleconference was held to address the parties' concerns regarding the continuation of the litigation schedule adopted during the March 9, 2020 Prehearing Conference and memorialized in Prehearing Order #1 amid COVID-19 concerns. All active parties were invited to participate. Counsel for UGI Gas, I&E, OCA, OSBA, CAUSE-PA,

Direct Energy, IECPA, and Calpine Energy participated. During that teleconference, it was determined: that the litigation schedule adopted at the March 9, 2020 Prehearing Conference and memorialized in Prehearing Order #1 was suspended for a period of two weeks; that by Thursday, March 26, 2020, UGI Gas would file with the Commission a tariff supplement suspending the effectiveness of rates proposed in Supplement No. 6 to UGI Gas Tariff – Pa.P.U.C. Nos. 7 and 7S until October 29, 2020; and that the parties would reconvene telephonically on April 7, 2020, to either adopt a new procedural schedule or discuss the need for a further extension of the suspension date.

On March 25, 2020, David Torakeo filed a formal Complaint to the proposed rate increase. The Complaint was docketed at C-2020-3019355.

On March 26, 2020, UGI Gas filed Supplement No. 10 to Tariff UGI Gas Pa.P.U.C. Nos. 7 and 7S, which voluntarily suspends the rates and regulations proposed in Supplement No. 6 to Tariff UGI Gas Pa.P.U.C. Nos. 7 and 7S by one additional day, to become effective on October 29, 2020.

On April 7, 2020, a second teleconference was held to discuss whether a revised procedural schedule should be adopted, or if a further extension of the suspension date was warranted amid increasing COVID-19 concerns and the closure of Commission offices.¹ All active parties were invited to participate. Counsel for UGI Gas, I&E, OCA, OSBA, CAUSE-PA, CEO, Direct Energy, IECPA, DOD/FEA and Calpine Energy participated. During that teleconference, it was determined that: by Thursday, April 9, 2020, UGI Gas would file with the Commission a tariff supplement further suspending the effectiveness of rates proposed in Supplement No. 6 to UGI Gas Tariff – Pa.P.U.C. Nos. 7 and 7S until November 19, 2020; and the parties would reconvene telephonically on April 21, 2020, to either adopt a new procedural schedule or discuss the need for a further extension of the suspension date.

¹ While the Commission's offices were closed beginning on March 16, 2020, pursuant to an Executive Order issued by the Pennsylvania Deputy Secretary for Human Resources and Management due to the COVID-19 pandemic, the Commission has since then continued working remotely.

On April 9, 2020, UGI Gas filed Supplement No. 11 to Tariff UGI Gas Pa.P.U.C. Nos. 7 and 7S, which voluntarily suspended the rates and regulations proposed in Supplement No. 6 to Tariff UGI Gas Pa.P.U.C. Nos. 7 and 7S by three weeks, to become effective on November 19, 2020.

On April 11, 2020, Sarah Hanle filed a formal Complaint to the proposed rate increase. The Complaint was docketed at C-2020-3019824.

On April 21, 2020, a third teleconference was held to discuss whether a revised procedural schedule should be adopted, or if a further extension of the suspension date was warranted due to COVID-19 concerns and the closure of Commission offices. All active parties were invited to participate. Counsel for UGI Gas, I&E, OCA, OSBA, CAUSE-PA, CEO, Direct Energy, IECPA, DOD/FEA and Calpine Energy participated. During that teleconference, it was determined that by Thursday, April 23, 2020, the parties would submit to me, for my consideration, a proposed litigation schedule.

On April 22, 2020, the parties submitted to me a revised litigation schedule.

By Prehearing Order #2 dated April 24, 2020, I granted UGI Gas' Motion for Protective Order.

By Prehearing Order #3 dated April 28, 2020, I adopted the revised litigation schedule proposed by the parties.

On May 22, 2020, the following parties served Direct Testimony: OCA (Direct Testimonies of Scott J. Rubin, OCA St. No. 1; Lafayette K. Morgan, OCA St. No. 2; Kevin W. O'Donnell, OCA St. No. 3; Jerome D. Mierzwa, OCA St. No. 4; and Roger D. Colton, OCA St. No. 5); I&E (Direct Testimonies of John Zalesky, I&E St. No. 1 (Proprietary and Non-Proprietary); Christopher Keller, I&E St. No. 2; Joseph Kubas, I&E St. No. 3; Holly Gilliland, I&E St. No. 4; Esysan A. Sakaya, I&E St. No. 5; Christopher M. Henkel, I&E St. No. 6; and James Harchar, I&E St. No. 7 (Proprietary and Non-Proprietary)); OSBA (Direct Testimony of Robert D. Knecht,

OSBA St. No. 1 (Public and Highly Confidential Versions)); CAUSE-PA (Direct Testimony of Mitchell Miller, CAUSE-PA St. No. 1); CEO (Direct Testimony of Eugene M. Brady, CEO St. No. 1); and IECPA (Direct Testimony of Richard A. Baudino, IECPA St. No. 1).

On June 4, 2020, telephonic public input hearings were held at 1:00 p.m. and 6:00 p.m. during which a total of five individuals testified.

The following parties served Rebuttal Testimony:² UGI Gas (Rebuttal Testimonies of Christopher R. Brown, UGI Gas Statement No. 1-R; Stephen F. Anzaldo, UGI Gas Statement No. 2-R; Vivian K. Ressler, UGI Gas Statement No. 3-R (Public and Highly Confidential Versions); Timothy J. Angstadt, UGI Gas Statement No. 4-R (Public and Confidential Versions); Joseph R. Kopalek, UGI Gas Statement No. 5-R; Paul R. Moul, UGI Gas Statement No. 7-R; Paul R. Herbert, UGI Gas Statement No. 8-R; John F. Wiedmayer; UGI Gas Statement No. 9-R; Robert R. Stoyko, UGI Gas Statement No. 11-R; Daniel V. Adamo, UGI Gas Statement No. 12-R; Toby Bishop, UGI Gas Statement No. 13-R; and James H. Cawley, UGI Gas Statement No. 14-R); OCA (Rebuttal Testimony of Jerome D. Mierzwa, OCA Statement No. 4-R); I&E (Rebuttal Testimony of Christopher Keller, I&E Statement No. 2-R); OSBA (Rebuttal Testimony of Robert D. Knecht, OSBA Statement No. 1-R); and IECPA (Rebuttal Testimony of Richard A. Baudino, IECPA Statement No. 1-R).

On July 7, 2020, the following parties served Surrebuttal Testimony: UGI Gas (Surrebuttal Testimony of Paul R. Herbert, UGI Gas Statement No. 8-SR – Surrebuttal Testimony of Paul R. Herbert); OCA (Surrebuttal Testimonies of Scott J. Rubin, OCA Statement 1-SR; Lafayette K. Morgan, OCA Statement 2-SR; Kevin W. O’Donnell, OCA Statement 3-SR; Jerome D. Mierzwa, OCA Statement 4-SR; and Roger D. Colton, OCA Statement 5-SR); I&E (Surrebuttal Testimonies of John Zalesky, I&E Statement No. 1-SR (Proprietary and Non-Proprietary)); Christopher Keller, I&E Statement 2-SR; Joseph Kubas, I&E Statement No. 3-SR; Esysan A. Sakaya, I&E Statement No. 5-SR; and James Harcher, I&E Statement No. 7-SR

² The majority of the parties submitted their testimony on June 19, 2020, the date agreed-upon by the parties for the submission of Rebuttal Testimony. However, in light of Governor Wolf’s declaration of June 19, 2020 as a state holiday, OCA submitted its Rebuttal Testimony on June 18, 2020 while OSBA submitted its Rebuttal Testimony on Monday, June 22, 2020.

(Proprietary and Non-Proprietary); and CAUSE-PA (Surrebuttal Testimony of Mitchell Miller, CAUSE-PA Statement 1-SR).

On July 8, 2020, Jessica R. Rogers, Esq., Counsel for UGI Gas, contacted me on behalf of all the parties to inform me that the parties had reached an unopposed settlement in principle of all issues. Ms. Rogers requested that the parties be permitted to prepare and file a joint motion and stipulation for the admission of the evidence in order to move all of the testimony and exhibits into the record. I granted this request.

By Cancellation Notice dated July 10, 2020, the evidentiary hearings scheduled for July 14-16, 2020 were cancelled.

On July 20, 2020, UGI Gas, I&E, OCA, OSBA, CAUSE-PA, CEO and IECPA filed a Joint Stipulation for Admission of Evidence with the Commission. I granted the Joint Stipulation for Admission of Evidence by Interim Order issued on July 23, 2020.

On August 3, 2020, the Joint Petition for Approval of Unopposed Settlement of All Issues (Joint Petition or Settlement) was filed along with Statements in Support by UGI Gas, I&E, OCA, OSBA, IECPA, and DOD/FEA. Additionally, the Joint Petition contained statements of non-opposition from CAUSE-PA, CEO, Calpine, and Direct Energy.

By letter dated August 4, 2020, I informed the consumer Complainants in this matter of the Settlement and requested that they indicate, by no later than August 13, 2020, if they wished to join, oppose or take no position on the proposed Settlement. I also enclosed a signature page that the consumer Complainants could sign and return to me if they wished to join in the settlement petition. I have not received a response from any of the consumer Complainants.³

³ On August 25, 2020, the Commission's Secretary added the Complaint of Robert Zivny to this docket. Commission regulations regarding complaints in rate proceedings provide that "[a] person filing a complaint during the suspension of a proposed general rate increase shall take the record of the suspended rate proceeding as it stands at the time of the complaint's filing." 52 Pa.Code § 5.32. Mr. Zivny's Complaint was added to this docket after the deadline established for Complainants to comment on the Settlement. If Mr. Zivny disagrees with this Recommended Decision, he may file exceptions to the Recommended Decision in accordance with 52 Pa.Code § 5.533 (regarding procedure to except to initial, tentative and recommended decisions).

The record in this matter consists of the transcripts of the March 9, 2020, April 7, 2020 and April 21, 2020 prehearing conferences and the June 4, 2020 public input hearings as well as the statements and exhibits which were admitted into the record. The Joint Petition for Approval of Unopposed Settlement of All Issues, with its appendices, will be admitted into the record through this Recommended Decision.

The parties' position is that the Settlement is fair, just, and reasonable and reflects a reasonable compromise of the disputed issues in this proceeding. I agree. The Settlement terms appear to be a fair and reasonable resolution of the various issues, and appropriately balances the interests of the company and its customers, particularly in light of the COVID-19 pandemic. Therefore, I recommend that the Joint Petition for Approval of Unopposed Settlement of All Issues be approved without modification by the Commission.

III. FINDINGS OF FACT

1. UGI Gas is a jurisdictional public utility providing natural gas distribution service to customers in forty-five (45) counties in the Commonwealth of Pennsylvania.

2. On January 28, 2020, UGI Gas filed Tariff Gas – PA. P.U.C. Nos. 7 and 7S to be effective for service rendered on or after March 28, 2020, proposing changes to UGI Gas' base retail distribution rates designed to produce an increase in revenues of approximately \$74.6 million, based upon data for a fully projected future test year ending September 30, 2021.

3. I&E is the prosecutory bureau within the Commission established for purposes of representing the public interest in ratemaking and service matters before the Office of Administrative Law Judge and for enforcing compliance with the state and federal motor carrier safety and gas safety laws and regulations. *Implementation of Act 129 of 2008 Organization of Bureau and Offices*, Docket No. M-2008-20071852 (Order entered August 11, 2011).

4. Complainant OCA is authorized to represent the interests of consumers before the Commission. Act 161 of 1976, 71 P.S. § 309-2.

5. Complainant OSBA is authorized to represent the interests of small business consumers of utility service in Pennsylvania under the provisions of the Small Business Advocate Act. Act 181 of 1988, 73 P.S. §§ 399.41 - 399.50.

6. CAUSE-PA is an unincorporated association of low-income individuals that advocates on behalf of its members to enable consumers of limited economic means to connect to and maintain affordable water, electric, heating and telecommunications services.

7. CEO is a not-for-profit corporation organized and existing under the laws of the Commonwealth of Pennsylvania which serves as an advocate for the low-income population of Luzerne County.

8. IECPA is an association of energy-intensive industrial consumers taking service from UGI Gas primarily pursuant to the Company's current industrial transportation rates. The cost of natural gas service received from UGI Gas is a significant element in the cost of operation for IECPA members, and the reliability and quality of service that IECPA members receive from UGI Gas are also of critical importance to operations.

9. Calpine is an electric generation supplier that relies on natural gas, including gas provided by the UGI Gas distribution system, to produce electricity that supports commercial, industrial, and residential retail operations in Pennsylvania.

10. DOD/FEA consists of certain agencies of the United States Government which have offices, facilities, or installations in the service area of UGI Gas. UGI Gas's rate case will impact the annual cost of service to DOD/FEA facilities utilizing natural gas service. The General Services Administration has delegated to the DOD/FEA and to the U.S. Army the authority to participate in this proceeding to protect its consumer interest.

11. The Direct Energy Companies are Natural Gas Suppliers that operate in the UGI Gas service territory.

12. In addition to the aforementioned active parties, the following customer complainants are involved in this proceeding: Micah Cameron, David Torakeo, Sarah Hanle, and Robert Zivny.

13. The active parties engaged in extensive discovery throughout the proceeding.

14. On March 6, 2020, pursuant to subsection 7301(c) of the Emergency Management Services Code, 35 Pa. C.S. §§ 7101, et seq., Governor Tom Wolf issued a Proclamation of Disaster Emergency proclaiming the existence of a disaster emergency throughout the Commonwealth for a period of up to ninety (90) days, unless renewed by the Governor. Shortly thereafter, on March 11, 2020, the World Health Organization declared COVID-19 — the coronavirus — a pandemic (COVID-19 Pandemic). Subsequently and in response, on March 13, 2020, the Commission issued an Emergency Order instituting a Public Utility Service Termination Moratorium at Docket No. M-2020-3019244 (PUC Emergency Order). Since that time, the Pennsylvania state government and the federal government have been working to address the impacts that COVID-19 is having on the health of Pennsylvanians, and on the state and national economy.

15. I&E, OCA, OSBA, CAUSE-PA, CEO, and IECPA submitted testimony in opposition to various portions of the Company's base retail distribution rate filing.

16. The active parties submitted a total of four rounds of testimony in support of their respective positions, including: Company direct testimony, other parties' direct testimony, rebuttal testimony, and surrebuttal testimony.

17. The Joint Petitioners agreed to a settlement that fully resolves all issues among them.

18. The active parties to this proceeding represent a reasonable cross-section of interests who had a fair and reasonable opportunity to present evidence and explore all issues addressed in the Company's filing and in the Settlement.

19. The Joint Petitioners are in full agreement that the Settlement is in the public interest as a reasonable resolution of their respective interests and should be approved.

IV. PUBLIC INPUT HEARINGS

On June 4, 2020, telephonic public input hearings were held at 1:00 p.m. and 6:00 p.m. The hearings were held telephonically due to the ongoing COVID-19 pandemic. A total of five people testified, with four witnesses testifying at the 1:00 p.m. hearing and one witness testifying at the 6:00 p.m. hearing. All of the witnesses opposed the requested rate increase.

Donald J. Tirrell testified that, although he appreciates UGI Gas' work, an increase to his bills will make it difficult for him to live since he is a retired senior citizen living on a limited income.⁴

David Torakeo testified that he believes the significant rate increases proposed by UGI Gas for residential customers, specifically for rate classes R and RT, should be rejected by the Commission. Mr. Torakeo maintained that his rejection request is based, in part, on the fact that the significant rate increases have not been communicated in a clear, accurate or just manner. Specifically, Mr. Torakeo asserted that in UGI Gas' communications, there is no clear and direct mention of the significant proposed increase in the fixed monthly base customer charge. Moreover, Mr. Torakeo asserted that when he called UGI Gas' call center for additional information about the proposed rate increase, he could not obtain accurate information from the UGI Gas call center representatives. Accordingly, Mr. Torakeo is concerned that the proposed rate increase cannot be supported by claims of exemplary management performance.

⁴ Tr. 105-108.

Mr. Torakeo believes that these rate increases should be rejected for residential customers because the increases are unreasonable, unjust, and contrary to public policy. Mr. Torakeo asserts that the proposed increase in the fixed monthly base customer charge is unreasonable and not equitable, and that the proposed increase far exceeds the rate of inflation. Mr. Torakeo believes that the proposed increase in the fixed monthly residential base customer charge to \$19.95 would disproportionately place a burden on lower-income customers, particularly on one to two person households who use relatively small amounts of natural gas and who rely mainly on Social Security or Medicaid. Mr. Torakeo further believes that any increase in customer fixed charges does not in any way encourage any reduction in energy usage or help in the fight against global warming.

Mr. Torakeo also testified that it is difficult for a layman customer to understand why there is such a significant difference in the delivery or distribution charges proposed for residential customers versus non-residential customers.

Mr. Torakeo concluded that there are other suitable means of achieving necessary revenue when warranted, such as by increasing the delivery rate charge, thereby encouraging energy conservation, providing less impact on low-income households, and reducing swings in peak demand. Mr. Torakeo believes that any and all proposed rate increases by a utility should be fully transparent and summarily complete in their presentation to all key stakeholders.⁵

Sarah Hanle testified that she cannot afford a rate increase. Ms. Hanle explained that due to the COVID-19 pandemic, she did not work for about five weeks and she is still waiting for her unemployment checks from the government. Ms. Hanle further explained that she has virtually no savings left since she was temporarily unemployed but she is still trying to keep up with her monthly bills. Ms. Hanle testified that she is now back to work but still cannot afford a rate increase.⁶

⁵ Tr. 109-121.

⁶ Tr. 121-128.

David Aitken testified that he is not a UGI Gas customer but was appearing on behalf of the AARP (American Association of Retired Persons). Mr. Aitken testified that AARP has 1.8 million members in Pennsylvania, many of whom live in areas served by UGI Gas, and that the 10.6% rate increase proposed by UGI Gas would have a severe impact on all customers, in particular, older customers who live on a relatively fixed income.

Mr. Aitken testified that a large rate increase during the COVID-19 pandemic would be devastating to many Pennsylvanians who are struggling to make ends meet. Accordingly, Mr. Aitken asked that UGI Gas be ordered to supplement its rate increase request with updated information that reflects reductions in load and change in patterns due to the pandemic.

Additionally, Mr. Aitken testified that with many unemployed, all non-essential spending should be identified and eliminated. Mr. Aitken explained that AARP's specific objections to the increase include: that the filing is replete with excessive grid spending and the like which is unaffordable; that the monthly customer charge is already too high at \$14.60 per month, and should not be increased to \$19.95 a month; that customer charges should reflect metering and billing costs, and higher customer charges make managing your gas bill more difficult; that UGI Gas proposed to increase residential rates by 10.6%, while many commercial customers will see only a 4% increase, and industrial customers only a 2.6% increase; that \$61 million of the \$74.6 million increase is being shouldered by residential customers, and creative cost allocation is used to justify the disproportionate shift to residential customers; that the practice of shifting these costs to residential ratepayers is unjustified, unfair to the residential class, and is unsupported by the AARP; and that cost allocation to residential customers must be rejected on the grounds that residential customers should not pay more than the system average.⁷

Sarah Sanders testified that she opposes this rate increase because the distribution and contribution charges are out of her control, which greatly affects her bills. Ms. Sanders

⁷ Tr. 129-134.

explained that she has done everything within her control to keep her bills down, but that she still cannot keep up with her bills. Ms. Sanders believes that this increase will make it difficult for her to keep up with her bills and force her to seek assistance.⁸

V. DESCRIPTION OF THE SETTLEMENT

UGI Gas filed a Joint Petition for Approval of Unopposed Settlement of All Issues on August 3, 2020 . The Petition includes the terms of the Settlement, including terms related to revenue requirement, revenue allocation and rate design, customer assistance and other low-income issues, the COVID-19 emergency relief program, tariff modifications and consolidation, COVID-19 cost deferral and accounting issues. The Settlement also included the following pertinent appendices:

Appendix A	Pro Forma Tariff Supplement
Appendix B	Proof of Revenues

Additionally, statements in support of each party joining the Settlement are attached to the Joint Petition for Approval of Unopposed Settlement of All Issues.

VI. TERMS AND CONDITIONS OF THE SETTLEMENT

The Joint Petitioners have agreed to a Settlement covering all issues in this proceeding. The terms and conditions of the Settlement are set forth fully below, beginning at paragraph 19 through and including paragraph 54 of the Joint Petition for Approval of Unopposed Settlement of All Issues filed on August 3, 2020. The Joint Petition also includes the usual settlement conditions that are typically included in settlements. These terms, which, among other things, protect the parties' rights to file exceptions if any part of the Settlement is modified, condition the agreement upon approval by the Commission and provide that no party is bound in future rate cases by any particular position taken in this case. These additional terms and conditions will not be repeated here verbatim. The reader is directed to the Petition itself.

⁸ Tr. 154-158.

The Joint Petitioners to the UGI Gas Settlement include I&E, OCA, OSBA, IECPA, and DOD/FEA. The Settlement terms among the Joint Petitioners and UGI Gas consist of the following terms and conditions:

General

19. The following terms of this Unopposed Settlement reflect a carefully balanced compromise of the interests of the active Parties in this proceeding, inclusive of COVID-19 related considerations. The Joint Petitioners agree that the Unopposed Settlement is in the public interest.
20. On March 6, 2020, pursuant to subsection 7301(c) of the Emergency Management Services Code, 35 Pa. C.S. §§ 7101, *et seq.*, Governor Tom Wolf issued a Proclamation of Disaster Emergency proclaiming the existence of a disaster emergency throughout the Commonwealth for a period of up to ninety (90) days, unless renewed by the Governor. Shortly thereafter, on March 11, 2020, the World Health Organization declared COVID-19 — the coronavirus — a pandemic (“COVID-19 Pandemic”). Subsequently and in response, on March 13, 2020, the Commission issued an Emergency Order instituting a Public Utility Service Termination Moratorium at Docket No. M-2020-3019244 (“PUC Emergency Order”). Since that time, the Pennsylvania state government and the federal government have been working to address the impacts that COVID-19 is having on the health of Pennsylvanians, and on the state and national economy. This settlement will allow UGI Gas to enhance the provision of supportive services to its customers during the COVID-19 Pandemic period while continuing to provide safe and reliable natural gas distribution services. These measures should be approved promptly, so that they can be put into effect to assist UGI Gas’s customers.
21. The Joint Petitioners agree that UGI Gas’s January 28, 2020 distribution base rate increase filing should be approved, including those tariff changes included in and specifically identified in **Appendix A** attached hereto, subject to the terms and conditions of this Unopposed Settlement specified below.

Stay-Out

22. In consideration of this comprehensive COVID-19 settlement, the Company shall not file a Section 1308(d) general rate increase prior to January 1, 2022, provided, however, that the Company shall not be

prevented from filing a tariff or tariff supplement proposing a general increase in rates in compliance with Commission orders or in response to fundamental changes in regulatory policies or federal tax policies affecting the Company's rates.

Revenue Increase

23. The Company shall be permitted to implement an increase in base rate revenues of \$20 million effective January 1, 2021, in lieu of the originally requested \$74.6 million increase, or 26.8% of the originally requested increase. This 2.7% increase in overall pro forma annual operating revenue will be phased-in and partly deferred as described below, with revenue allocations made in accordance with the Company's as-filed revenue allocation percentages:

1. January 1, 2021 through June 30, 2021:

(a) Current pro forma annual revenue increase of \$10 million (1st step tariff billing rate increase) permitted as follows:

Rate R/RT: \$8.2 million
 Rate N/NT: \$1.7 million
 Rate DS: \$0.1 million

(b) Permitted deferral revenue (\$million) by month shall be as shown below.

Month	Total	R/RT	N/NT	DS
January 2021	\$1.95	\$1.63	\$0.31	\$0.02
February 2021	\$1.63	\$1.36	\$0.26	\$0.02
March 2021	\$1.35	\$1.12	\$0.22	\$0.01
April 2021	\$0.69	\$0.56	\$0.12	\$0.01
May 2021	\$0.35	\$0.27	\$0.07	\$0.00
June 2021	\$0.18	\$0.14	\$0.04	\$0.00
<u>Period Total</u>	\$6.16	\$5.08	\$1.02	\$0.06

2. July 1, 2021 forward:

(a) Additional current pro forma annual revenue increase of \$10 million (2nd step tariff billing rate increase) permitted as follows:

Rate R/RT: \$8.2 million
Rate N/NT: \$1.7 million
Rate DS: \$0.1 million

(b) No additional permitted deferral revenue applies.

24. The deferral amount of \$6.16 million shall be recovered over the period October 1, 2021 through September 30, 2022 through a temporary increase to the otherwise applicable monthly customer charge. The amount of the temporary increase is shown below, by customer class:

Rate R/RT: \$0.71 per month (based on total deferred Rate R/RT amount of \$5.08 million)

Rate N/NT: \$1.25 per month (based on total deferred Rate N/NT amount of \$1.02 million)

Rate DS: \$3.24 per month (based on total deferred Rate DS amount of \$0.06 million)

The recovery of such deferral amounts shall not be subject to interest, true-up or reconciliation.

Rate Design

25. The pro forma annual revenue increases will be incorporated through increases to the Company's volumetric distribution charges for the affected classes based on the Company's filed usage billing determinants as reduced by 75 percent of the Company's growth-related billing determination adjustment set forth in the rebuttal testimony of Christopher R. Brown.

26. As noted in Paragraph 23, above, a temporary one-year increase in monthly customer charges shall apply for the period of October 1, 2021 through September 30, 2022 to recover the deferred revenue amount.

Customer Assistance, Including Payment Troubled and Low Income Customers

27. For the duration of the termination moratorium established by the PUC Emergency Order, the Company shall:

- (a) Continue service to all currently active customers, irrespective of payment status, unless termination is required to ameliorate a safety emergency, or unless otherwise determined by the Commission (upon petition by the Company or upon the Commission's own motion) in accordance with the PUC Emergency Order.
- (b) Conduct outreach to all customers for which UGI Gas has income documentation on file indicating the customer is confirmed low income and screen for CAP eligibility.
- (c) Continue additional voluntary customer assistance activities throughout the duration of the COVID-19 PUC Emergency Order including:
 - (i) Waiver of late payment fees incurred on and after March 24, 2020, through the duration of the PUC Emergency Order.
 - (ii) Conduct enhanced customer screening to determine CAP and LIHEAP eligibility and process related enrollments (enhancements include auto-enrollment in CAP for Non-CAP LIHEAP recipients and generation of pre-populated LIHEAP applications for Non-LIHEAP CAP customers).
 - (iii) Suspend CAP recertification requirements for the duration of the PUC Emergency Order. When CAP recertification requirements resume, CAP customers whose recertification was due during the pendency of the PUC Emergency Order will recertify their income and be eligible for reinstatement using the same process as set forth in Paragraph 28(a), below, for the self-verifying CAP customers.
 - (iv) Enhance communications to residential and non-residential customers describing the various sources of grants and emergency funding options that are available through temporary State and Federal stimulus programs.
- (d) Within 15 days of entering this Unopposed Settlement, UGI will send a communication to consumers with arrears and those who have previously failed payment arrangements encouraging them to contact UGI to

determine whether they may now be eligible for a payment arrangement.

28. Temporary Emergency-based Changes.

- (a) Accept self-verification of income for new CAP enrollments or modification of CAP payment determinations for existing customers with income modifications for the duration of the PUC Emergency Order. Within 10 days of the expiration of the PUC Emergency Order, UGI will initiate a notice to CAP CBOs requiring them to recertify all self-verified CAP customers according to UGI's standard CAP recertification process to be completed in 110 days or less. If a participant does not submit income documentation within UGI's standard 90-day CAP recertification process, they will be removed from CAP. Any such customer will not be subject to a stay-out of the CAP and will be reinstated into the program without upfront payment if they submit the required income documentation within 6 months of their CAP removal date. Upon reinstatement into CAP, the customer will have all arrearage accrued while not enrolled in CAP reclassified as pre-program arrearage. These modified reinstatement rules shall be applicable only to the identified 6 month period following a customer's removal pursuant to the foregoing and are not a permanent change to the Company CAP program terms and conditions.
- (b) Expand eligibility of the UGI Gas Operation Share grant program to 250% FPL and increase the maximum grant size from \$400 to \$600 for the duration of the PUC Emergency Order plus an additional 90 days, to the extent funds are available.
- (c) The Company shall provide an additional \$2.0 million in funding to the UGI Gas Operation Share program. The additional \$2.0 million in funding to the UGI Gas Operation Share program shall be by a non-rate recoverable funding amount of \$1.0 million from the Company and an additional \$1.0 million in funding from anticipated pipeline refund amounts. This \$1.0 million is a single-issue usage one-time only use of residential pipeline refunds and does not permit future use of pipeline refunds for any purpose. This additional funding would increase the Operation Share balance by approximately 300% (from approximately \$700,000 to \$2.7 million). CAP customers will remain

eligible for Operation Share grants. These funds will be distributed, consistent with the Operation Share program allocations found in Appendix A of UGI's currently approved Universal Service and Energy Conservation Plan.

- (d) To ensure the continued effectiveness of LIURP due to the prolonged cessation of program activities during the COVID-19 crisis, UGI agrees to take the following steps to ensure the LIURP program will continue to meet community needs:
 - (i) UGI will use its best efforts to expend its entire 2020 LIURP budget. To assist it in doing so after months of installation delays due to the Emergency Proclamation, UGI will adjust its LIURP minimum usage threshold to the actual average usage of residential customers (no longer average usage + 30%) for customers at or below 150% FPL for the duration of its 2020 LIURP program year. All unspent LIURP dollars at the end of the program year will continue to roll over and be added to the budget for the following year, consistent with prior rate case settlements.
 - (ii) The Company will provide additional funding of up to \$500 per LIURP job in instances where the LIURP contractor incurs documented COVID-19 related costs including costs for additional PPE to ensure that its workers are not exposed unreasonably to COVID-19 virus while performing LIURP services.
 - (iii) Beginning July 1, 2021, UGI will increase its annual LIURP budget by an amount proportionate to the percentage distribution rate increase for the residential customer class, which is equal to \$80,000 per annum on a calendar year basis, with the amount attributable to the period ending December 31, 2021, also being \$80,000.

29. If, after the Commission's current termination moratorium expires or is otherwise terminated, the Commission issues a similar order reinstating a termination moratorium due to the COVID-19 pandemic, the Company will initiate discussions with the parties to this Unopposed Settlement within thirty (30) days of the order to

discuss a possible extension of customer benefits provided under this Section III.E.

COVID-19 Emergency Relief Program

30. Emergency Relief Program (“ERP”). Effective one (1) day after the issuance of the Commission’s Order approving this Unopposed Settlement, the Company will implement a temporary program to provide billing relief and/or payment relief for customers who need temporary relief measures during the pendency, and for a limited period following the termination of the PUC Emergency Order period as defined in Paragraph 36, below.

31. Enrollment. Enrollment in the ERP may be made online or by phone.

32. Eligibility.

(a) Any residential customer meeting the following qualifications will be eligible for the program:

(i) The customer is a current customer in arrears; and

(ii) The customer is not participating or eligible for CAP; and

(iii) The customer provides the following: (1) proof of unemployment benefits filed/received for one or more household members on or after March 13, 2020; or (2) proof the customer, or a member of the customer’s household, is eligible for, or has received, a federal COVID-19 relief check in the amount of \$1,200.

(b) Any small business customer meeting the following qualifications will be eligible for the program:

(i) The customer is a current customer receiving service under Rate N, NT or DS who is in arrears; and

(ii) The customer provides proof of the following: (1) it has closed operations due to its status as a non-essential life-sustaining business, or (2) it had business operations partially suspended due to a COVID-19-related order.

33. Benefits.

(a) Residential customer ERP benefits shall include:

- (i) Upon enrollment, suspension of collection efforts for any amounts due for service beginning as of the March 2020 billing cycle and continuing through the duration of the PUC Emergency Order; and
 - (ii) Upon enrollment, a customer shall be entitled to a one-time credit (up to \$400) in an amount equal to 25% of the customer's applicable balance as of the ERP Enrollment Termination Date (defined in Paragraph 36 below). Upon occurrence of the ERP Enrollment Termination Date, all ERP customers will be screened for CAP and Operation Share eligibility, and those who may be eligible will be encouraged to apply for the most appropriate program to address their needs. For customers determined to be ineligible for CAP, any remaining current applicable balance shall be subject to a long-term deferred payment arrangement (including the suspended amount). For purposes of establishing a deferred payment arrangement for applicable balances accrued through the ERP Enrollment Termination Date, the Company shall offer payment arrangement terms consistent with section 1405(b) or 12 months, whichever is longer, unless a shorter arrangement is affirmatively requested by the consumer. Longer payment arrangements may be offered to ERP participants at the discretion of the Company.
- (b) Small business customer ERP benefits shall be available to customers receiving service under Rates N, NT and DS and shall include:
 - (i) Upon enrollment, suspension of collection efforts for any amounts due for service beginning as of the March 2020 billing cycle and continuing through the ERP Enrollment Termination Date (defined below); and
 - (ii) Upon occurrence of the ERP Enrollment Termination Date, any remaining current applicable balance shall be subject to a long-term deferred payment arrangement allowing for a period equal to the shorter of (1) two times the length of PUC Emergency Order period; or (2) 180 days.

34. Return to Collections Activity for ERP Enrollees. Upon occurrence of the ERP Enrollment Termination Date and deferred payment arrangements being established in accordance with Paragraph 33(a)(ii) above, arrearages associated with any customer failing to discharge such COVID-19 related payment plan obligations shall be subject to customary and lawful collections activity.
35. Cost-recovery. The Company shall track the costs associated with providing the ERP for deferred recovery on a class-specific basis, including but not limited to implementation costs and direct bill credit amounts in accordance with Section III.H below. The parties reserve the right to challenge how these costs are recovered in the next base rate proceeding.
36. Termination and Extension. As the COVID-19 situation is changing rapidly, the extent of federal and state assistance is not fully known, and to protect the Company from an indefinite financial exposure, the ERP Enrollment period will terminate at the end of the December 2020 billing period.
37. ERP Enrollment Termination Date. Upon occurrence of the ERP Enrollment Termination Date, enrollment in the ERP will cease except as to customers who initiate enrollment activity prior to the ERP Enrollment Termination Date. No later than 30 days prior to the ERP Enrollment Termination Date, the Company will initiate discussions with the parties to the comprehensive COVID-19 settlement to discuss a possible extension of customer benefits provided under the ERP.

Tariff Modifications and Consolidation

38. Line Extensions. The Company's proposed modifications to Tariff Rule 5 – Extension Regulation are approved as filed. These modified extension provisions shall not be applied to customers along existing GET Gas designated mains nor be permitted as a method to extend existing GET Gas mains where GET Gas surcharge payments remain in effect.
39. Rider F – Universal Service Program Modifications. Throughout Rider F, the as-filed updated participant number of “25,297” shall be replaced with “the number of CAP enrollees as of September 30, 2020”.
40. Rate NNS and Rate MBS. The Company shall continue to calculate its Rate NNS and Rate MBS charges using the existing method as

approved in the Commission's October 4, 2019 final order at Docket No. R-2018-3006814.

41. Choice Supplier Tariff Rules. The Company's proposed language clarifications related to Tariff Rule 10 - Failure to Comply with an OFO or DFD are approved as-filed.
42. Other. The following miscellaneous changes are also approved as-filed:
 - (a) *Rule 2, Contract for Gas Service, Page 26; Subsection 2.3*. Facilities and System Access has been modified to reflect the use of Maximum Daily Quantity ("MDQ") terminology.
 - (b) *Rule 10, Rider A, State Tax Adjustment Surcharge, Page 48*. The State Tax Adjustment Surcharge rate has been reset to 0.00%.
 - (c) *Rule 13, Rider D, Merchant Function Charge, Page 55*. The rate has increased for Residential PGC Customers to 2.17% and for Non-Residential PGC Customers to 0.28%.
 - (d) *Rule 15, Price To Compare, Page 57*. The Price to Compare has changed as a result of the change to the Merchant Function Charge.
 - (e) *Rule 21, Gas Emergency Planning, Page 69; Subsection 21.2*. Priority-Based Curtailments. Subpart (3) has been expanded to include Rate N. Subpart (4) has been deleted.
 - (f) *Rate GL – General Service – Gas Light Service, Page 88*. The Distribution Charge has been increased in accordance with Rate R/RT rate increases on which Rate GL is based.
 - (g) *Rate DS – Delivery Service, Pages 94-95*. Clarifying language addressing the Minimum Monthly Bill has been added. Also, the term Maximum Daily Quantity ("MDQ") has been defined.
 - (h) *Rate LFD – Large Firm Delivery Service, Page 99*. Availability language has been modified to remove extraneous language.
 - (i) *Choice Supplier Tariff Rule 4, Choice Supplier Obligations, Page 115; Subsection 4.12*. The residential and commercial Purchase of Receivable rates have been updated as a result of the change to the Merchant Function Charge.
43. Compliance Tariff. The tariff modifications set forth in Paragraphs 38, 39, 41, and 42 shall be effective on the later of October 1, 2020, or on the first day after Commission approval.

44. Chapter 71. The Company's proposal to permit the Company to file its Chapter 71 earnings reports on a consolidated basis, rather than by former rate district, as proposed at pages 14-15 of UGI Gas Statement No. 1, the Direct Testimony of Christopher R. Brown, is accepted.
45. Uniform Distribution Rates and Riders. The Company's proposal to fully harmonize distribution rates for Rates N/NT and DS is withdrawn without prejudice. The Company may propose this in the Company's next base rate case, but no sooner than January 1, 2022.
46. DSIC-eligible Plant Balances. As of the effective date of rates in this proceeding, UGI Gas will continue to be eligible to include plant additions in the Distribution System Improvement Charge ("DSIC") once the Company's total net plant balances reach a level of \$2,875,056,000; as established in the UGI Gas 2019 Base Rate Case. This provision is included solely for purposes of calculating the DSIC and is not determinative for future ratemaking purposes of the projected additions to be included in rate base in an FPFTY filing.
47. DSIC Calculation Return on Equity. For purposes of calculating its DSIC, UGI shall use the equity return rate for gas utilities contained in the Commission's most recent Quarterly Report on the Earnings of Jurisdictional Utilities and shall update the equity return rate each quarter consistent with any changes to the equity return rate for gas utilities contained in the most recent Quarterly Earnings Report, consistent with 66 Pa. C.S. § 1357(b)(3), until such time as the DSIC is reset pursuant to the provisions of 66 Pa. C.S. § 1358(b)(1).

COVID Cost Deferral

48. Regulatory Asset Accounting for COVID-19 Pandemic Related Costs. In recognition of the extraordinary, not reasonably foreseeable, and non-recurring circumstance posed by the COVID-19 Pandemic on the Company's operations, the Company shall be permitted to track and record as a regulatory asset all COVID-19 Pandemic Costs, as defined in Paragraph 49, below. The Company shall be permitted to claim COVID-19 Pandemic Costs for ratemaking purposes in the Company's next general rate proceeding over an amortization period of 10 years, without interest. COVID Pandemic Costs that cause the Company's operating costs for the specific FERC account to exceed budgeted FTY and FPFTY levels shall be eligible for recovery for ratemaking purposes. Otherwise, COVID-19 Pandemic Related Costs shall not be eligible for recovery for ratemaking purposes. The Company shall maintain records, documents, and other information necessary to demonstrate that these costs qualify as COVID-19 Pandemic Costs.

All parties reserve the right to review the prudence and reasonableness of these costs in the next base rate proceeding.

49. COVID-19 Pandemic Costs may include reasonable and prudently incurred, incremental labor-related costs; costs incurred to maintain employee and contractor availability; incremental health care related costs; incremental worker's compensation costs; incremental occupational safety equipment, contractor, and personnel costs; annual uncollectible accounts expense in excess of \$12.81 million beginning with the fiscal year period ending September 30, 2020 and continuing for annual periods thereafter until the effective date of the Company's next base rate filing; and ERP related costs as discussed in Paragraph 35, above. COVID-19 Pandemic Costs that cause the Company's operating costs for the specific FERC account to exceed budgeted FTY and FPFTY levels or, in the case of uncollectible accounts expense, \$12.81 million, shall be eligible for recovery for ratemaking purposes.
50. The Company shall exercise prudent efforts to maximize its utilization of and track any government benefits, whether direct grant, tax credits, or other, to minimize costs to be deferred under this paragraph. The Company shall provide a report detailing its efforts, any amounts obtained as part of these efforts and their intended use, and, if denied, the reason for such denial as part of the Company's next base rate case.

Accounting

51. Environmental Cost Recovery.

Normalized Allowance. The Unopposed Settlement reflects an annual normalized amount of \$4.188 million for prospective environmental expenditures under the DEP COAs that was adopted in the Commission's Order at Docket No. R-2018-3006814.

Annual differences between \$4.188 million and actual expenditures since the beginning of the Company's 2019 fiscal year will continue to be deferred as a regulatory asset (where expenditures are greater than \$4.188 million per year) or as a regulatory liability (where expenditures are less than \$4.188 million on an annual basis) and accumulated for book and ratemaking purposes until the Company's next base rate case..

Amortization of Prior Balances. This Company will continue to amortize the \$8.103 million balance applicable to pre-fiscal 2019 environmental expenditures for book and ratemaking purposes at \$1.621 million per year, as adopted by the Commission's October 4,

2019 final order at Docket No. R-2018-3006814. The Company will amortize the \$1.219 million balance applicable to fiscal year 2019 over the five-year period beginning January 1, 2021 at \$243,800 per year, in accordance with recommendation of I&E witness Zalesky (I&E Statement No. 1).

52. ADIT/EDFIT. The Company’s Accumulated Deferred Income Tax (“ADIT”) and pro-rationing methodology as required by Treasury Regulation 1.167(l)-1(h)(6)(ii) is accepted. Further, the Company’s method to amortize Excess Accumulated Deferred Federal Income Taxes (“EDFIT”) according to the Average Rate Assumption Method (“ARAM”) is accepted. Absent a change in federal or state law, regulation, judicial precedent or policy, the remaining unamortized EDFIT balance will continue as a reduction to rate base in all future proceedings until the full amount is returned to ratepayers.
53. Repairs Allowance. For purposes of determining the revenue requirement in this case, all capitalized repairs deductions claimed on a federal tax return have been normalized for ratemaking purposes and the appropriate related amount of tax effect of those deductions has been reflected as Accumulated Deferred Income Taxes as a reduction to UGI Gas’s rate base.
54. Depreciation Rates. For purposes of this settlement, the Company’s as-filed FPFTY depreciation rates are accepted for the Company’s accounting purposes.

VII. LEGAL STANDARD

The purpose of this investigation is to establish rates for UGI Gas’ customers that are just and reasonable pursuant to Section 1301 of the Public Utility Code.⁹ The burden of proof in a ratemaking proceeding is on the public utility.¹⁰

A public utility seeking a general rate increase is entitled to an opportunity to earn a fair rate of return on the value of the property dedicated to public service.¹¹ In determining

⁹ 66 Pa.C.S. § 1301.

¹⁰ See 66 Pa.C.S. § 315(a); *Lower Frederick Twp. v. Pa. Pub. Util. Comm’n*, 48 Pa. Commw. 222, 226-27, 409 A.2d 505, 507 (1980) (citations omitted). See also, *Brockway Glass v. Pa. Pub. Util. Comm’n*, 63 Pa. Commw. 238, 437 A.2d 1067 (1981).

¹¹ *Pa. Gas & Water Co. v. Pa. Pub. Util. Comm’n*, 341 A.2d 239 (Pa.Cmwlth. 1975).

what constitutes a fair rate of return, the Commission is guided by the criteria set forth in *Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia*,¹² and *Federal Power Commission v. Hope Natural Gas Co.*¹³ In *Bluefield*, the United States Supreme Court stated:

A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.¹⁴

The Commission encourages parties in contested on-the-record proceedings to settle cases.¹⁵ Settlements eliminate the time, effort and expense of litigating a matter to its ultimate conclusion, which may entail review of the Commission's decision by the appellate courts of Pennsylvania. Such savings benefit not only the individual parties, but also the Commission and all ratepayers of a utility, who otherwise may have to bear the financial burden such litigation necessarily entails.

By definition, a "settlement" reflects a compromise of the positions that the parties of interest have held, which arguably fosters and promotes the public interest. When

¹² 262 U.S. 679 (1923).

¹³ 320 U.S. 591 (1944).

¹⁴ 262 U.S. at 692-93.

¹⁵ See 52 Pa.Code § 5.231.

active parties in a proceeding reach a settlement, the principal issue for Commission consideration is whether the agreement reached suits the public interest.¹⁶ In their supporting statements, the Joint Petitioners conclude, after extensive discovery and discussion, that this Settlement resolves all of the contested issues in this case, fairly balances the interests of the company and its ratepayers, is in the public interest, and is consistent with the requirements of the Public Utility Code.

Not every issue was of equal concern to every party. Accordingly, each of the Joint Petitioners' statements in support did not necessarily address each and every aspect of the Settlement.

VIII. DISCUSSION OF THE SETTLEMENT

A. Stay-Out

As part of the comprehensive settlement, the parties have agreed that UGI Gas shall not file a Section 1308(d) general rate increase prior to January 1, 2022.¹⁷ UGI Gas notes that this will provide its customers with a stable rate once the final incremental step (the deferred revenue recovery step) of the proposed increase goes into effect on October 1, 2021, for a twelve-month period. The parties have also provided protection for the Company, which shall not be prevented from filing a tariff or tariff supplements proposing a general increase in rates in compliance with Commission orders or in response to fundamental changes in regulatory policies or federal tax policies affecting the Company's rates. UGI Gas maintains that this provision strikes a reasonable compromise between the interests of consumers and the Company and should be adopted without modification. UGI Gas Statement in Support at 9-10.

I&E notes that this settlement term was first raised in settlement negotiations and that it did not submit testimony regarding the merits of the agreed upon stay-out provision. The

¹⁶ *Pa. Pub. Util. Comm'n v. CS Water and Sewer Associates*, 74 Pa. PUC 767, 771 (1991). *See also Pa. Pub. Util. Comm'n v. York Water Co.*, Docket No. R-00049165 (Order entered October 4, 2004); *Pa. Pub. Util. Comm'n v. Philadelphia Electric Co.*, 60 Pa. PUC 1 (1985).

¹⁷ Settlement ¶ 22

general concern raised by the statutory parties and the advocates is that the current COVID-19 emergency and tenuous economic times are too uncertain. Further, even though I&E did not submit testimony regarding this specific issue, I&E shares the concerns of the interested parties. Therefore, I&E does not oppose this settled upon term as it is a full and fair compromise that provides regulatory certainty and a resolution of this issue, all of which facilitates the Commission’s stated preference favoring negotiated settlements as in the public interest. I&E Statement in Support at 13-14.

IECPA submits that the lasting impacts of the COVID-19 Pandemic have yet to be fully realized throughout Pennsylvania and the nation. IECPA maintains that as the Commonwealth and every Pennsylvania citizen and entity adversely impacted by the pandemic continue to recover from recent impacts while simultaneously dealing with an ongoing pandemic, the presence of a utility rate case stay-out insures that the Companies' ratepayers can reasonably rely on stable natural gas delivery rates during this critical period of economic recovery. IECPA Statement in Support at 4. For its part, the OCA notes that the base rate filing stay-out provision ensures that UGI Gas will keep its base rates at the levels proposed in the Settlement for almost two years, or until September 1, 2022, assuming the Company files for a general rate increase as soon as the stay-out provision ends. OCA Statement in Support at 16.

B. Revenue Increase

The Settlement provides for an annual distribution rate revenue increase of \$20.0 million, to become effective for service rendered on and after January 1, 2021.¹⁸ The distribution rate revenue increase of \$20.0 million is 26.8% of the proposed revenue increase of \$74.6 million requested in UGI Gas’ January 28, 2020 filing. UGI Gas Statement in Support at 5.

UGI Gas notes that the agreed upon revenue requirement is a “black box” settlement, with certain exceptions discussed herein.¹⁹ Under a “black box” settlement, parties do not specifically identify or resolve individual rate base, revenue, expenses, and rate of return

¹⁸ Settlement ¶ 23

¹⁹ Settlement ¶ 17

issues. UGI Gas further notes that this “black box” concept often facilitates settlement agreements because it permits parties to retain their positions on important ratemaking issues for the proceeding at hand as well as for future proceedings. UGI Gas Statement in Support at 5.

Additionally, UGI Gas notes that the Commission encourages black box settlements.²⁰ Under a “black box” settlement, it is not necessary for the Administrative Law Judge to decide individual rate base or revenue and expense adjustments proposed by the parties or determine the return on equity under the Settlement in order to determine the reasonableness of the proposed revenue increase under the Settlement. UGI Gas Statement in Support at 5.

UGI Gas projected to spend more than \$373 million in system investments in the Fully Projected Future Test Year (FPFTY) ending September 30, 2021.²¹ These investments are necessary to accelerate the replacement of aging gas plant infrastructure, upgrade and improve system segments and modernize facilities, serve new residential and commercial customers, connect customers converting to natural gas, and install and upgrade supporting information technology, all as part of growing and maintaining a safe and reliable distribution system and providing quality customer service. Since its last base rate case, UGI Gas has adopted modest annual wage and salary adjustments and will continue to do so, where reasonable, and has experienced other general price increases for necessary products and services.²² UGI Gas Statement in Support at 5-6.

UGI Gas maintains that the revenue increase is essential to its continued ability to attract capital on reasonable terms and provide safe and reliable service to customers. Although UGI Gas has implemented cost containment measures, efficiency enhancements, and has seen substantial customer growth over time, the growth in operating and capital investment, along

²⁰ See, e.g., *Pa. Pub. Util. Comm'n v. Aqua Pa., Inc.*, Docket No. R-2011-2267958, pp. 26-27 (Order entered June 7, 2012); *Pa. Pub. Util. Comm'n v. Peoples TWP LLC*, Docket No. R-2013-2355886, pp. 27-28 (Order entered Dec. 19, 2013); *Statement of Chairman Robert F. Powelson, Implementation of Act 11 of 2012*, Docket No. M-2012-2293611 (Public Meeting, Aug. 2, 2012).

²¹ UGI Gas St. No. 1, p. 8.

²² *Id.*, at 8-9.

with experienced and anticipated declines in per customer usage, have caused UGI Gas to be unable to earn a fair rate of return on its investment at present rate levels.²³ Absent rate relief, UGI Gas projected that, for the twelve months ending September 30, 2021, its return on common equity would become deficient and would preclude UGI Gas from obtaining capital on reasonable terms to finance infrastructure improvements needed to maintain reliable service to customers. Moreover, the return on equity for the FPPTY, absent rate relief, also would be significantly lower than the return on equity of 10.75% recommended by UGI Gas Witness Moul in his rebuttal testimony.²⁴ Rate relief will allow UGI Gas to continue to provide safe and reliable gas service and continue its capital investment strategy from a position of financial strength, which will allow the Company to make system investments that will enhance the reach and capacity of the UGI Gas distribution system and replace older, obsolete facilities. This is necessary to ensure continued system reliability, safety, and customer service performance.²⁵ UGI Gas Statement in Support at 6-7.

In this proceeding, UGI Gas, I&E, and OCA presented testimony on revenue requirement issues.²⁶ In its initial filing, UGI Gas proposed a revenue increase of \$74.6 million,²⁷ which included a proposed return on equity of 10.95%.²⁸ I&E initially recommended a revenue requirement increase of approximately \$14 million²⁹ with a return on equity of 8.48%.³⁰ The OCA initially recommended a revenue requirement decrease of approximately \$7.9 million³¹

²³ *Id.*

²⁴ UGI Gas St. No. 7-R, p. 1.

²⁵ UGI Gas St. No. 1, p. 9.

²⁶ Although the OSBA also presented testimony on revenue requirement issues, the OSBA did not present an overall recommended revenue requirement.

²⁷ UGI Gas St. No. 1, p. 6.

²⁸ UGI Gas St. No. 7, p. 48.

²⁹ I&E St. No. 1, p. 3.

³⁰ I&E St. No. 2, p. 18.

³¹ OCA St. No. 2, p. 5

with a return on equity of 8.50%.³² UGI notes that only through extensive negotiations were the Joint Petitioners able to reach a compromise within a range of their competing litigation positions. UGI Gas Statement in Support at 7.

In negotiating the revenue requirement, the parties carefully considered the economic impacts of the COVID-19 Pandemic, and crafted a three-step, phased-in method for implementing the rate increase throughout the FPFTY. Importantly, the implementation of the first step will be delayed from the end of the suspension period (originally October 28, 2020, but voluntarily extended by UGI Gas to November 19, 2020) to January 1, 2021. On January 1, 2021, the first step of the phased-in rate increase, designed to produce \$10 million of increased revenue on an annual basis, will go into effect. The first step will be effective from January 1, 2021 through June 30, 2021. The recovery of the identified deferred revenue identified at paragraph 23(1)(b) of the Settlement is addressed via the third step, UGI Gas Statement in Support at 7-8.

On July 1, 2021, the second step of the phased-in rate increase, producing an additional \$10 million on an annual basis, will go into effect as shown at paragraph 23(2)(a) of the Settlement. As a result, the July 1, 2021 rates will produce a \$20 million increase on an annual basis over UGI Gas' current rates. However, in order for UGI Gas to receive the full benefit of the revenue during the FPFTY itself (*i.e.*, for the period that rates would have been in effect as a result of this proceeding), the parties have agreed that UGI Gas can recover, in the third step of the phase-in, the deferred revenue that would have been recovered from customers if the Company had fully implemented the \$20 million increase in a single step on January 1, 2021. In the third step of the phase-in, the \$6.16 million of deferred revenue will be recovered over the defined one-year period October 1, 2021 through September 30, 2022 through a temporary increase to the otherwise applicable monthly customer charge. The amount of the temporary increase is shown, by customer class, at paragraph 24 of the Settlement. UGI Gas Statement in Support at 8-9.

³² OCA St. No. 3, p. 47

UGI Gas believes that the above-described phase-in proposal balances the needs of the Company to continue to fund its infrastructure replacement work and operations, while also considering the significant economic effect of COVID-19 on its customers. The \$20 million proposed revenue increase under the Settlement reflects significant concessions by the parties to craft a solution that would ensure UGI Gas' financial health and would protect consumers in the face of the unprecedented public health and economic crisis presented by the COVID-19 Pandemic. UGI Gas maintains that the phased-in proposed revenue increase of \$20 million is supported by substantial evidence, is just and reasonable, is in the public interest, and should be adopted without modification. UGI Gas Statement in Support at 9.

I&E notes that it engaged in extensive discovery and submitted extensive testimony regarding the proposed overall annual distribution revenue increase that was proposed in UGI Gas' original base rate filing. Further, the settlement negotiations in this proceeding began very early in the proceeding and included extensive discussion and consideration of the COVID-19 emergency and the tenuous current and future economic climate. A summary of I&E's final litigation position is set forth in the surrebuttal testimony of I&E witness Zalesky.³³ While I&E discussed significant adjustments regarding UGI Gas' base rate filing throughout its written testimony, the overall driving force behind the settlement negotiations was the COVID-19 emergency and the tenuous economic climate. I&E Statement in Support at 14-15.

I&E fully supports the negotiated level of overall phased-in distribution rate revenue increase as compared to UGI Gas' original proposal. While the overall revenue requirement is a "black box" compromise, the overall revenue levels are within the levels advanced on the evidentiary record and reflects in-depth consideration of the COVID-19 emergency and the current economic climate. Additionally, the negotiated revenue increase represents a full compromise of all revenue-related issues raised by the parties. And, as a "black box" settlement, unless specifically addressed in the Joint Petition, the Settlement does not reflect agreement upon individual issues. Therefore, in consideration of the above and the positions presented by all of the parties to this proceeding, I&E fully supports the negotiated level of overall phased-in distribution rate revenue increase as a full and fair compromise that

³³ I&E St. No. 1-SR, pp. 4-5.

provides UGI Gas, the Joint Petitioners, affected ratepayers, and the Commission with regulatory certainty and a resolution of these issues, all of which is in the public interest. I&E Statement in Support at 15.

In its approach to this proceeding, the OCA recognized the impact of this unusual public health crisis and the resulting affects it has had on our economy. Likewise, UGI Gas' Operations were impacted by the COVID-19 pandemic, including, among other things, having to scale back all field construction activities by 80 to 95 percent.³⁴ Accordingly, the OCA recommended that the Commission not adopt a typical ratemaking approach to this proceeding, recognize the impacts of the pandemic on Pennsylvanians, and deny UGI Gas' requested rate increase.³⁵ Or at the very least, OCA recommended that the Commission defer implementation of a rate increase for some period of time to provide relief to customers.³⁶ OCA Statement in Support at 6.

OCA maintains that these Settlement provisions are carefully designed to balance the interests of UGI Gas and its customers. As the COVID-19 pandemic has progressed, some business operations in Pennsylvania have reopened and expanded, including UGI Gas resuming construction activities.³⁷ As part of resuming these activities, the Company continues to fulfill its obligations under its Long-Term Infrastructure Improvement Plan (LTIIP), which are necessary to address higher risk assets on its system and ensure safe, reliable service to its customers. Similarly, customers are struggling during this unprecedented situation. Moreover, the COVID-19 pandemic is an evolving situation and it is unclear the extent to which it may further inhibit the Pennsylvania economy in the future. While it is possible that this pandemic may continue until such time, the OCA believes that deferring half of the agreed upon increase until January 1, 2021 and the remainder until July 1, 2021 to be a fair compromise in light of the other provisions and protections provided to customers by this Settlement. OCA Statement in Support at 7-8.

³⁴ OCA St. 2 at 8.

³⁵ OCA St. 1 at 3.

³⁶ *Id.* at 20.

³⁷ UGI Gas St. 1-R at 8.

Similar to UGI Gas and I&E, the OCA also notes that the Settlement represents a “black box” approach to the revenue requirement including cost of capital issues, unless otherwise specified, and that black box settlements avoid the need for protracted disputes over the merits of individual revenue requirement adjustments and avoid the need for a diverse group of stakeholders to attempt to reach a consensus on each of the disputed accounting and ratemaking issues raised in this matter, as policy and legal positions can differ. As such, the parties have not specified a dollar amount for each issue or adjustment raised in this case. Attempting to reach agreement regarding each adjustment in this proceeding would have likely prevented any settlement from being reached. OCA Statement in Support at 8.

The OSBA supports this two-stage revenue increase for essentially two reasons. First, \$20 million is significantly less than the Company’s original \$74.6 million request. Second, by recovering the \$20 million in two stages, in 2021, the hope is that this will lessen the economic impact upon the Company’s surviving small business customers. Specifically, the revenue recovery will be in 2021, a time at which it is hoped that the COVID-19 pandemic will be more under control. Therefore, the OSBA respectfully submits that the Joint Petition’s proposed \$20 million revenue increase is just and reasonable under the present pandemic circumstances. OSBA Statement in Support at 3.

IECPA maintains that the \$20 million net increase in distribution revenues contemplated by the settlement is a vital component of the compromise between the parties during this crucial time. This agreed-upon revenue requirement is a substantial departure from the Company's initial request, which provides UGI Gas' ratepayers with important economic relief from the original request for \$74.6 million in increased revenues. At the same time, however, the parties, including IECPA, believe that this amount provides UGI Gas with reasonable revenues and earnings opportunity going forward. IECPA Statement in Support at 4.

DOD/FEA contends that the stipulated Settlement represents a fair compromise which provides UGI Gas a modest and appropriate increase in revenue while protecting Pennsylvania ratepayers from substantial rate hikes. DOD/FEA notes that UGI Gas

demonstrated a willingness to engage in settlement discussions early and proactively with DOD/FEA and the other parties. The Settlement moves all rate classes closer to rate of return unity and the system average cost of service. From DOD/FEA's perspective, the rate design provisions in the Settlement are fair to DOD/FEA's interests. DOD/FEA Statement in Support at 2.

C. Rate Design

1. Revenue Allocation

UGI Gas relied upon a class cost of service study to allocate its proposed total revenue to each of the retail customer classes.³⁸ UGI Gas, OCA, and OSBA all presented evidence regarding revenue allocation. However, all parties agreed that the majority of the revenue increase should be allocated to the residential customer class, in order to move all rate classes closer to the overall system rate of return in a fair manner. This outcome is consistent with the Commonwealth Court's decision in *Lloyd v. Pa. Pub. Util. Comm'n*, 904 A.2d 1010 (Pa. Cmwlth. 2006) (*Lloyd*) and prior judicial precedent regarding revenue allocation. UGI Gas Statement in Support at 10.

OCA and OSBA took differing positions on how the revenue increase should be allocated to the various classes.³⁹ Despite these differences, the Joint Petitioners were able to reach a full settlement that allocated the revenue in a manner that will move all classes closer to the cost of service. UGI Gas Statement in Support at 10.

UGI Gas believes that the revenue allocation under the Settlement is fully consistent with the Commonwealth Court's decision in *Lloyd* and prior appellate court precedent regarding revenue allocation. In addition, in considering the *Lloyd* decision, it is important to recognize that *Lloyd* did not overturn prior judicial precedent regarding revenue allocation and the applicability of cost of service studies. When allocating revenues to the rate classes, the

³⁸ UGI Gas St. No. 1, pp. 40-45; UGI Gas Exhibit D.

³⁹ OCA St. No. 4, pp. 30-34; OSBA St. No. 1, pp. 29-37.

Commission is not required to adopt a single cost of service study or strictly allocate revenues according to the study's results. In *Executone of Philadelphia, Inc. v. Pa. Pub. Util. Comm'n*, 415 A.2d 445, 448 (Pa.Cmwlth. 1980), the Court stated as follows:

[T]here is no single correct cost study or methodology that can be used to answer all questions pertaining to costs; there are only appropriate and inappropriate cost analyses depending upon the type of service under study and the management and regulatory decision in question.

Likewise, in *Peoples Natural Gas Co. v. Pa. Pub. Util. Comm'n*, 409 A.2d 446, 456 (Pa. Cmwlth. 1979), the Court stated as follows with respect to rate design:

. . . there is no set formula for determining proper ratios among the rates of different customer classes. *Natona Mills v. Pennsylvania Public Utility Commission*, 179 Pa. Super. 263, 116 A.2d 876 (1955). What is reasonable under the circumstances, the proper difference among rate classes, is an administrative question for the commission to decide. This court's scope of review is limited.

UGI Gas Statement in Support at 10-11.

As *Lloyd* and the other cases cited above demonstrate, the Commission retains considerable discretion in designing rates, is not required to follow any particular cost of service study, and can consider other factors, including gradualism and the extenuating economic circumstances brought about by COVID-19, in designing just and reasonable rates, as long as cost of service is the primary guiding factor. The agreed-upon revenue allocation under the Settlement provides movement towards cost of service for all rate classes under UGI Gas' class cost of service study. As such, UGI Gas submits that the Settlement's proposed revenue allocation is fully consistent with the *Lloyd* decision and other relevant precedent regarding revenue allocation. UGI Gas Statement in Support at 11.

OSBA notes that the Company's small and medium business customers generally take service under Rate N/NT (General Service) and Rate DS (Delivery Service). Rate N is regular sales service, Rate NT is Choice transportation service, and DS is regular transportation service. OSBA Witness Knecht testified extensively regarding cost of service allocation study

(CSAS) methodology and revenue allocation.⁴⁰ After reviewing the Company's filed CSAS, Mr. Knecht testified, as follows:

I propose one material methodological change and a number of relatively modest technical changes. My evaluation of the specific implications of incorporating these changes is presented in my electronic workpapers. I began by replicating the Company's methodology in a separate spreadsheet model (RDK WP1), and then incorporated the changes that I recommend (RDK WP2 and RDK WP3).^[41]

Mr. Knecht's methodological change is set forth below:

The Company's CCAS combines customers in Rate IS and the interruptible portion of Rate XD ("XD-I") loads into a single 'Interruptible' class for cost allocation. While these customers share interruptibility characteristics, they are otherwise quite different from a cost perspective. A significant majority of the XD-I customers are also firm service Rate XD ('XD-F') customers, and they are served through the same mains that are directly assigned to the XD-F rate class. In contrast, mains for the Rate IS customers are not directly assigned but are allocated to the Interruptible class using the Company's A&E allocation method. In particular, the A&E cost allocation method is applied, with a zero "excess" component to reflect the interruptibility of the load. For XD-I customers, mains costs are directly assigned. As such, it would be more logical to combine the XD-F and XD-I classes for cost allocation purposes than to combine the Rate IS and XD-I classes. In my analysis, I segregated the interruptible class into Rate IS and Rate XD-I components. For revenue allocation purposes, I treated the XD class as a single entity.

In addition, because most of the Rate IS customers have not been interrupted, I also simulated my CSAS by treating the Rate IS class as firm. In evaluating revenue allocation in this proceeding, I consider both of these alternative models.^[42]

Mr. Knecht's technical changes are set forth, as follows:

⁴⁰ See, e.g., OSBA Statement No. 1, at 24-30.

⁴¹ OSBA Statement No. 1, at 26.

⁴² *Id.*, at 27.

I eliminate the arbitrary rounding scheme in the Company's CSAS modeling (and the associated numerical inconsistencies), as the rounding serves no useful purpose, it distorts the results for low-cost classes, and it makes verification of the analysis in regulatory proceedings problematic.

Environmental costs for the cleanup of manufactured gas facilities date back to an era when all customers took gas supply service from the utility. The costs should therefore be allocated to all rate classes. The Company does allocate the plant costs in Account 305 to all classes using Factor 2, and it allocates some \$1.2 million of the environmental O&M costs in Account 930 using Factor 12. However, the Company assigns most of the O&M costs (in Accounts 740-742) only to Rates R/RT and N/NT. I therefore apply allocation factor "2" to these accounts.

The allocation factors for forfeited discounts (Factor 20) and customer deposits (Factor 21) are updated to reflect the most recent values.

Metering costs related to non-Choice telemetry classes (\$2.85 million) are assigned only to the transportation service classes, rather than being assigned to all rate classes using Factor 12.

Reconnections fees in "other revenues" are allocated based on a historical average for those fees. The purchase-of-receivable revenues in "other revenues" are allocated in the same way PGC uncollectibles are allocated.^[43]

OSBA Statement in Support at 3-5.

As set forth above, Mr. Knecht created his own COSS in this proceeding. Ultimately, Mr. Knecht summarized his results in the follow Table:⁴⁴

⁴³ *Id.*, at 27-28 (footnotes omitted).

⁴⁴ *Id.*, at 29.

Table Iec-2 Comparative CSAS Results: Class Rates of Return at Current Rates				
	UGI Gas CCAS	RDK Replication	RDK Alternative	RDK Alt. with Firm IS
R/RT	3.23%	3.23%	3.43%	3.49%
N/NT	7.77%	7.77%	7.90%	8.04%
DS	11.37%	11.37%	11.32%	11.51%
LFD	12.90%	12.90%	12.65%	12.75%
XD-F	12.86%	12.86%	10.11%	10.22%
Interruptible	16.55%	--		--
IS	--	16.84%	16.49%	12.53%
XD-I	--	6.18%	-27.93%	-40.21%
Total	5.95%	5.95%	5.95%	5.95%
XD Total		12.73%	9.35%	8.93%
Sources: Exhibit D, RDK WP1, WP2 and WP3.				

Mr. Knecht then applied the results of his CSAS to class revenue allocation at the originally requested Company revenue requirement. Mr. Knecht explained, as follows:

Table Iec-R3 below presents the five proposals. Other than the OCA across-the-board proposal, which is not based on cost considerations, all intervenor proposals imply a lower rate increase for the N/NT class than that put forward by the Company.⁴⁵

Table Iec-R3 is set forth, below:⁴⁶

Table Iec-R3 Alternative Revenue Allocation Proposals (\$mm)					
	UGI Gas	OSBA	OCA Cost	OCA ATB	I&E
R/RT	\$61.23	\$61.23	\$57.48	\$41.97	\$61.23
N/NT	\$12.63	\$11.13	\$10.13	\$16.55	\$ 8.00
DS	\$ 0.70	\$ 0.70	\$0.95	\$ 4.32	\$ 0.70
LFD	--	\$ 0.00	\$3.50	\$ 4.92	--
XD-F	--		\$0.90	\$ 3.80	--
Interruptible	--		\$1.60	\$2.98	--
IS		--			--
XD-I					--
Total	\$74.55	\$74.55	\$74.55	\$74.55	\$70.00
XD Total		\$1.50			--
Sources: UGI Gas Exhibit E, OSBA Statement No. 1 Table Iec-4, OCA Statement No. 4 Table 7 and 9, I&E Exhibit No. 5, Schedule No. 4, page 1.					

OSBA Statement in Support at 6-7.

⁴⁵ OSBA Statement No. 1-R, at 21.

⁴⁶ *Id.*, at 22.

The Joint Petition proposes the following revenue allocation for both the January 2021 and July 2021 revenue increase:

Rate R/RT: \$8.2 million
Rate N/NT: \$1.7 million
Rate DS: \$0.1 million⁴⁷

When the originally requested \$74.55 million is scaled back to the Joint Petition's proposed \$20 million revenue increase, it results in a revenue allocation that follows the Company's proposal. The OSBA observes that the Company's proposal lies within the range of the proposals of the other parties and is reasonably similar to Mr. Knecht's proposal. OSBA Statement in Support at 7.

Combined with the reduction in the proposed revenue requirement, this revenue allocation results in only a modest rate increase for the small business customers who survive the pandemic. The combined average distribution rate increase for the N/NT rates is 3.2 percent over the period the settlement rates will be in effect.⁴⁸ For Rate DS, the increase is only 0.7 percent.⁴⁹ Consequently, the OSBA submits that this proposal is a just and reasonable result. OSBA Statement in Support at 7-8.

DOD/FEA contends that the stipulated Settlement represents a fair compromise which provides UGI Gas a modest and appropriate increase in revenue while protecting Pennsylvania ratepayers from substantial rate hikes. UGI Gas demonstrated willingness to engage in settlement discussions early and proactively with DOD/FEA and other parties. The Settlement moves all rate classes closer to rate of return unity and the system average cost of service. From DOD/FEA's perspective, the rate design provisions in the Settlement are fair to DOD/FEA's interests. DOD/FEA Statement in Support at 2.

⁴⁷ Settlement ¶ 23.

⁴⁸ *Joint Petition, Appendix B*, at 3.

⁴⁹ *Id.*, at 4.

2. Rate Design

The primary objective of the proposed rate design was to develop rate schedules that would produce the requested revenues when applied to forecasted conditions for the FPFTY. As part of a comprehensive settlement, the parties have agreed that the *pro forma* annual revenue increases will be incorporated through increases to the Company's volumetric distribution charges for the affected classes, and will be based on the Company's filed usage billing determinants as reduced by 75 percent of the Company's growth-related billing determinant adjustment.⁵⁰ This adjustment takes into consideration the effect of COVID-19 on the Company's projected customer growth, as explored in the testimonies of UGI Gas Witnesses Brown and Stoyko.⁵¹ The Settlement does not increase the customer charge (except for the third-step, one-year temporary deferred revenue charge),⁵² and instead focuses the annual increase on the volumetric component, consistent with the testimony of certain customer complainants and other parties. UGI Gas believes that the adjustment to the billing determinants will allow the settlement rates to mirror the anticipated operating circumstances as adjusted in the Company's rebuttal testimony to account for the changed circumstances UGI Gas anticipates it will experience in the FPFTY due to the COVID-19 Pandemic. UGI Gas Statement in Support at 11-12.

The overall rate design reflects a gradual increase in rates over the course of the FPFTY, moves all customer classes toward the overall cost of service, and strikes a reasonable balance between the interests of customers and the Company. For these reasons, UGI Gas maintains that the revenue allocation and rate design are just and reasonable, and should be approved as reflected in the Settlement. UGI Gas Statement in Support at 12.

I&E notes that this proposed settlement term was first raised in settlement negotiations. I&E did not submit testimony regarding this specific methodology for the

⁵⁰ Settlement ¶ 25.

⁵¹ UGI Gas St. 1-R, p. 11; UGI Gas St. 11-R, pp. 22-24.

⁵² Settlement ¶ 26.

application of the rate increase. The general concern raised by the statutory parties and the advocates was, and is, that in these current COVID-19 tenuous economic times, it was difficult for the parties to agree to an increase in the customer charges. Further, even though I&E submitted testimony regarding whether there should be an increase in the customer charges,⁵³ I&E shares the concerns of the interested parties. I&E also submitted testimony regarding the Company's projections that the Company will experience a lower than projected growth in customers.⁵⁴ I&E agrees with the Company that expecting lower actual customer growth than projected in the filing is reasonable. Therefore, I&E supports the use of billing determinants and volumetric distribution charges to incorporate the *pro forma* annual revenue increases as a full and fair compromise that provides regulatory certainty and a resolution of this issue, all of which facilitates the Commission's stated preference favoring negotiated settlements as in the public interest. I&E Statement in Support at 16-17.

OCA notes that in the Company's initial filing, the Company proposed to recover a portion of its revenue increase from the fixed customer charge. With respect to the residential class, the Company proposed to increase the residential customer charge from its current rate of \$14.60 to \$19.95, or a 36.6 percent increase.⁵⁵ In response, the OCA witness Mierzwa recommended that if the Commission were to approve a rate increase, the residential customer charge be set no higher than \$16.00.⁵⁶ Mr. Mierzwa asserted that this smaller increase recognizes the principles of gradualism and will incentivize customers to conserve energy where possible.⁵⁷ Likewise, OCA Witness Colton testified on the OCA's behalf indicating that increases in customer charges disproportionately impact low-income customers and agreed with

⁵³ See, I&E St. No. 5; pp. 14-19; I&E St. No. 5-SR, pp. 5-8.

⁵⁴ See, I&E ST. No. 3-SR, pp. 19-24. See also, UGI St. No. 11-R, pp. 22-24.

⁵⁵ OCA St. 4 at 34.

⁵⁶ *Id.* at 37.

⁵⁷ *Id.*

the recommendation of Mr. Mierzwa.⁵⁸ In its rebuttal testimony, UGI Gas continued to advocate for increasing the customer charge to its as-filed position.⁵⁹ OCA Statement in Support at 8-9.

In addition, UGI Gas made an adjustment in its rebuttal testimony to reduce its projected customer growth for the FPFTY.⁶⁰ The Company noted that the COVID-19 pandemic has led to reductions in new residential and commercial construction, as well as a lower demand for oil to natural gas conversions.⁶¹ Accordingly, the Company revised its residential customer growth projections downward by approximately 6,588 residential customers and 1,697 commercial customers, as well as removing their associated billing determinants.⁶² In surrebuttal testimony, the OCA recommended that the Commission reject the Company's adjustment due to the limited availability of data supporting the Company's adjustment and the uncertain nature of the COVID-19 pandemic.⁶³ OCA Statement in Support at 9.

The OCA submits that the Settlement reflects a balanced compromise of these positions. The Joint Petitioners have agreed to incorporate 75 percent of the Company's customer growth and billing determinant reduction.⁶⁴ More importantly, the Company has agreed to keep the customer charges at their current levels, except to the extent it recovers the deferred rate increase through the temporary surcharge.⁶⁵ Accordingly, the residential customer charge will remain at \$14.60, but increase temporarily to \$15.31 between the months of October 1, 2021 and September 30, 2022, before reverting back to \$14.60.⁶⁶ This ensures that during the ongoing pandemic, customers will have greater control over their monthly bills by

⁵⁸ OCA St. 5 at 48, 58.

⁵⁹ UGI Gas St. 1-R at 43.

⁶⁰ UGI Gas St. 11-R at 22-23.

⁶¹ *Id.*, at 23-24.

⁶² *Id.*, at 22-23.

⁶³ OCA St. 2-SR at 19-22.

⁶⁴ Settlement ¶ 25.

⁶⁵ Settlement ¶ 26.

⁶⁶ Settlement ¶¶ 24-26.

conserving energy where possible, as well as further protecting low-income customers who can be disproportionately impacted by customer charge increases. OCA Statement in Support at 9-10.

As a result of the Settlement, the total average monthly bill of a residential customer using 73.5 Cubic Feet (Ccf) per month will increase in the following manner:

	Average Usage	Current Bill	Increase 1/1/2021	Increase 7/1/2021	Increase 10/1/2021
Residential Heating	73.5 Ccf	\$ 81.54	\$ 82.75	\$ 83.96	\$ 84.67 ⁶⁷

In total, the average residential heating customer’s bill will increase by approximately \$3.13 per month, or by 3.8 percent, compared to the Company’s as-filed increase of \$8.68 per month, which would have been an increase of approximately 10.6 percent. OCA submits that the delayed implementation of these rate increases ensures that any impacts to customers are spread out over a number of months to ensure gradual, modest increases during this time. OCA Statement in Support at 10.

D. Customer Assistance, Including Payment Troubled and Low Income Customers

1. In General

This case was filed on January 28, 2020, under normal operating circumstances and with no expectation of the significant changes to the Commonwealth and the economy that would occur. Less than two months later, the Company and the Commonwealth were operating under significantly different circumstances. As described in UGI Gas’ rebuttal testimony, the Company responded rapidly and effectively to Governor Wolf’s initial March 15 emergency declaration. UGI Gas transitioned its administrative employees to work remotely and limited its

⁶⁷ As noted above, after September 30, 2022, the temporary surcharge implemented on October 1, 2021, will be removed and the average residential heating customer’s monthly bill will revert back to \$83.96 per month. Settlement ¶¶ 24-26.

on-site operations to field employees and supervisors.⁶⁸ The Company assigned other employees to perform vital functions on an as needed basis.⁶⁹ As part of its response, UGI Gas immediately adopted policies to protect customers affected by the COVID-19 pandemic.⁷⁰ UGI Gas Statement in Support at 12-13.

UGI Gas recognized that the COVID-19 pandemic would affect all customer classes. The Company developed a comprehensive communications plan using various channels including its website, email, direct mail, virtual meetings, and video tutorials to support customers and employees working remotely.⁷¹ Additionally, UGI Gas' Customer Contact Center transitioned approximately 110 customer service representatives to work remotely by March 15, 2020, in order to continue to provide high quality service to customers while maintaining a healthy and safe environment for employees.⁷² This transition was highly successful and ensures that UGI Gas' Call Center will continue to be available to handle customers' questions throughout the COVID-19 Pandemic and post-Pandemic periods.⁷³ UGI Gas Statement in Support at 13.

Consistent with the Commission's Emergency Order, the Company ceased service terminations as of March 13, 2020, but also voluntarily began waiving all late payment charges as of March 24, 2020.⁷⁴ The Company ceased removing customers from its Customer Assistance Program (CAP) for failure to recertify as of March 18, 2020.⁷⁵ In addition, the Company instructed Community Based Organizations (CBOs) to accept telephonic "signatures" for CAP

⁶⁸ UGI Gas St. 1-R, p. 5.

⁶⁹ *Id.*

⁷⁰ *Id.*, at 6.

⁷¹ *Id.*

⁷² *Id.*

⁷³ *Id.*

⁷⁴ *Id.*

⁷⁵ *Id.*, at 6-7.

program authorizations.⁷⁶ The Company also filed a petition to implement a pre-Pandemic proposal to reduce maximum tiered monthly Percent-of-Income payments required of its CAP customers.⁷⁷ In addition, UGI Gas voluntarily implemented a Company matching program for employee donations to food banks along with its employees. As of June 19, 2020, UGI Gas had donated over \$460,000 to local food banks since the COVID-19 pandemic began, and has increased the Company's Operation Share donation commitment by \$500,000 per year for fiscal years 2020 and 2021.⁷⁸ UGI Gas Statement in Support at 13-14.

UGI Gas recognized, and continues to recognize, the effect that the COVID-19 pandemic has had on its customers, its employees, and the communities it serves.⁷⁹ UGI Gas is committed to supporting its employees, customers, and local communities during these challenging times and has sought to strike a fair balance in this case between the evolving needs presented by the COVID-19 pandemic and the critical need to continue to replace infrastructure in order to ensure that the Company can provide safe and reliable service.⁸⁰ As a result of this commitment, the parties to this proceeding worked tirelessly to craft meaningful customer service programs and provisions that would help customers who have experienced significant impacts as a result of COVID-19. UGI Gas believes that these programs will provide relief to customers in need and are consistent with the Commission's directives and with good public policy. Finally, as part of this comprehensive relief package addressing the COVID-19 pandemic, the parties agreed that UGI Gas should be permitted recovery of the extraordinary expenses that may be incurred by the Company as it responds to this continually evolving COVID-19 pandemic situation. UGI Gas Statement in Support at 14.

The Company strongly believes that the package of programs developed by the parties – parties who represent the interests of consumers, low income individuals, and small

⁷⁶ *Id.*, at 7.

⁷⁷ UGI Gas St. 12-R, p. 7.

⁷⁸ UGI Gas St. 1-R, p. 7.

⁷⁹ *Id.*, at 5.

⁸⁰ *Id.*, at 6.

businesses – are in the public interest and should be effective as soon as practicable. UGI Gas maintains that this component of the settlement, along with the sections on the COVID-19 Emergency Relief Program and COVID-19 Cost Deferral discussed below, work together to provide immediate and longer-term relief, as well as to ensure the financial health of the Company as it provides support to customers in need. UGI Gas further maintains that these provisions are consistent with the Commission’s directives, precedent, and good public policy, and are therefore in the public interest. UGI Gas has already begun preparations so that it can implement these programs effective on one day’s notice of the Commission’s order. UGI Gas Statement in Support at 14-15.

2. Customer Assistance Payment for Troubled and Low Income Customers

Section III.E of the Settlement includes the first of the three settlement provisions addressing the impacts of COVID-19. Section III.E provides immediate protections for customers for the duration of the PUC Emergency Order. These protections include: cessation of termination; outreach to confirmed low income customers; waiver of late payment fees; enhanced CAP and LIHEAP eligibility screening; suspension of CAP recertification requirements; and enhanced communications to customers on grants and emergency funding.⁸¹ The Company is already preparing to contact its customers to encourage them to contact UGI Gas for assistance, consistent with the requirements of the Settlement.⁸² UGI Gas Statement in Support at 15.

The Settlement provides UGI Gas with the means of responding to the emergency circumstances facing its service territory by adopting additional customer assistance programs that will be in place for the duration of the PUC Emergency Order, as well as a short window of time thereafter. These provisions will make it easier for customers, and particularly low-income customers, to obtain assistance from the Company. UGI Gas Statement in Support at 15.

⁸¹ Settlement ¶ 27.

⁸² Settlement ¶ 27(d).

First, UGI Gas will accept self-verification of income for new CAP enrollments.⁸³ This will make it easier for customers to enroll in CAP, without the need for paperwork that may be hampered by social distancing and stay at home requirements. UGI Gas Statement in Support at 16.

Second, UGI Gas will expand the eligibility of its Operation Share grant program to 250% of the Federal Poverty Level (FPL), and will also increase the maximum grant size from \$400 to \$600 for the duration of the Emergency Order plus an additional 90 days.⁸⁴ This will expand the number of customers who can obtain Operation Share assistance and will help eligible customers avoid accruing significant arrearages, particularly where they need temporary assistance that may have been caused by a temporary gap in income. In order to support the expansion of Operation Share, the Company is contributing an additional \$2 million in funding; \$1 million of this will come from the Company and will not be rate recoverable. An additional \$1 million will come from anticipated pipeline refund amounts for residential customers.⁸⁵ This use of pipeline refunds to support residential customers in need is consistent with proposals previously approved by the Commission in other utility proceedings.⁸⁶ UGI Gas Statement in Support at 16.

Finally, the Settlement makes certain modifications to the Company's Low Income Usage Reduction Program (LIURP) to ensure that LIURP will meet community needs. Specifically, UGI Gas will increase the scope of customers eligible for LIURP, by adjusting the minimum usage threshold to the actual average usage of residential customers for those customers at or below 150% FPL. All unspent LIURP dollars will roll over and be added to the following year's budget.⁸⁷ UGI Gas will also provide an additional \$500 of funding per LIURP

⁸³ Settlement ¶ 28(a).

⁸⁴ Settlement ¶ 28(b).

⁸⁵ Settlement ¶ 28(c).

⁸⁶ *See, e.g., Petition of Columbia Gas of Pa., Inc. For Approval to Contribute Columbia Gulf Refund Proceeds to Residential Hardship Fund and Provide PGC Credits to Small Commercial Customers*, Docket No. P-2012-2292298 (Order entered April 26, 2012).

⁸⁷ Settlement ¶ 28(d).

job where a contractor incurs documented COVID-19 related costs.⁸⁸ This will ensure that contractors are adequately compensated and are encouraged to adopt best practices to protect their workers and UGI Gas customers, such as using appropriate Personal Protective Equipment. In addition, beginning on July 1, 2021, UGI Gas will increase its annual LIURP budget in an amount proportionate to the distribution rate increase for the residential customer class (approximately \$80,000 per annum).⁸⁹ With these provisions, the Settlement will ensure that the LIURP program provides meaningful energy conservation support to low income customers and also supports the safety of those individuals involved with the LIURP program. UGI Gas Statement in Support at 16-17.

UGI Gas asserts that the terms of Section III.E are intended to provide immediate customer assistance to many UGI Gas customers, and particularly more robust assistance to low income customers. The steps identified in this Section are consistent with the Commission's general policy of assisting customers through a variety of time-tested programs such as CAP and LIURP, as well as through Company and pipeline refund funded relief programs. Critically, the provisions identified in Section III.E will make these programs more widely available while also increasing funding for the programs, which is important given the anticipated increased reliance on these programs during this COVID-19 emergency period. The provisions of Section III.E will provide clear public benefits that are needed to support customers during the difficult economic circumstances caused by the COVID-19 pandemic. UGI Gas Statement in Support at 17.

UGI Gas further asserts that while the provisions included in Section III.E are intended to last through the Commission's current termination moratorium, the parties have committed to holding future discussions if the Commission's termination moratorium expires or is otherwise terminated, to discuss whether the customer benefits reflected in Section III.E should be extended.⁹⁰ This commitment ensures that customers will be adequately protected and that programs can be extended or modified to the extent needed to adjust to the rapidly evolving circumstances the Commonwealth is facing in dealing with the COVID-19 pandemic. UGI Gas Statement in Support at 17-18.

⁸⁸ *Id.*

⁸⁹ *Id.*

⁹⁰ Settlement ¶ 29

I&E notes that the proposed customer assistance and temporary emergency changes settlement terms were first raised in settlement negotiations in consideration of the sweeping effects of the COVID-19 emergency. I&E did not submit testimony regarding these customer assistance and temporary emergency proposals. The general concern raised by the statutory parties and the advocates was, and is, that in these tenuous COVID-19 emergency economic times, many customers in all rate classes may experience financial difficulties. Further, I&E shares the concerns raised by the parties. After extensive negotiations, I&E now supports the proposed customer assistance and temporary emergency settlement terms as a full and fair compromise that provides additional assistance in these tenuous economic times, regulatory certainty, and a resolution of this issue, all of which facilitates the Commission's stated preference favoring negotiated settlements as in the public interest. I&E Statement in Support at 18-19.

OCA notes that in order to provide customers additional relief during the ongoing pandemic, the Settlement provides numerous provisions and protections for customers. Regarding UGI Gas' Operation Share Energy program, OCA notes that the Commission has previously approved use of pipeline refunds to provide additional funding to a gas utility's hardship fund.⁹¹ The OCA commends the Company for its donation to the Operation Share Energy Fund during this time when many are struggling, as this emergency funding will provide additional assistance to low-income customers, a group that has been disproportionately impacted by the COVID-19 pandemic.⁹² Additionally, the OCA notes that the LIURP provisions in the Settlement will ensure additional assistance to customers seeking to reduce usage and conserve energy during this difficult time. OCA Statement in Support at 11-12.

Altogether, the OCA supports these additional measures. As stated by the OCA's Witness Colton:

There can be no question but that low-income households are being more severely affected by COVID-19 than are households with higher levels of income. While similar data does not exist

⁹¹ *Petition of Columbia Gas of Pa. Inc. For Approval to Use Penalty Credit and Refund Proceeds for Its Residential Hardship Fund*, Docket No. P-2018-3000160, Order (Pa. PUC Jun. 14, 2018).

⁹² OCA St. 5 at 8-10.

specifically for Pennsylvania, the Figure below indicates the impact on residents of New York City. Clearly, residents with income in the bottom quartile have been most severely hit, with residents in the second quartile being the group second most severely affected.^[93]

The OCA maintains that these provisions provide targeted relief to customers to address these concerns. Qualifying customers will now have a greater ability to access the Operation Share Energy Fund, others will benefit from the continued waiver of late payment fees and additional relief will be provided to the Company's low income customers through modifications to CAP recertification and the Company's LIURP. In combination with the Company's Emergency Relief Program, OCA asserts that these provisions represent a balanced package of programs to help the most vulnerable during this emergency period. OCA Statement in Support at 12.

E. COVID-19 Emergency Relief Program

In addition to the customer assistance provisions described in Section III.E of the Settlement, the parties have crafted a COVID-19 Emergency Relief Program (ERP) that is reflected in Section III.F of the Settlement. This program is intended to provide benefits including billing relief and/or payment relief for customers who need temporary relief measures during the pendency of the COVID-19 pandemic, as well as for a limited period following the termination of the PUC Emergency Order period.⁹⁴ This program will be available to qualifying residential and small business customers. The qualifications for the program are identified in Paragraph 32 of the Settlement, and were developed in conjunction with the OCA, OSBA, CAUSE-PA, and CEO to address their core constituents. UGI Gas Statement in Support at 18.

The benefits of this program are fully described in Paragraph 33 of the Settlement. For residential customers the program's benefits include: suspension of collection efforts; a one-time credit (up to \$400) in an amount equal to 25% of the customer's applicable balance as of the ERP Enrollment Termination Date; automatic CAP screening at the end of the program; and a

⁹³ *Id.* at 8-9 (footnotes omitted).

⁹⁴ Settlement ¶ 30.

deferred payment arrangement that is as long or longer than the term provided in the Commission’s regulations if an arrearage exists at the end of the program and the customer is not CAP eligible.⁹⁵ For small business customers, the benefits include: suspension of collection efforts, and a long-term deferred payment arrangement allowing for a period equal to the shorter of (1) two times the length of the PUC Emergency Order period or (2) 180 days if an arrearage exists at the termination of the program.⁹⁶ These benefits are designed to address the immediate gap in income that many Pennsylvanians experienced as the Commonwealth’s economy reacted to the COVID-19 pandemic and businesses adjusted to the new reality of more limited operations, as well as the longer term impacts that continue to constrain operations for many businesses in Pennsylvania. As a result of the continuing effect of the COVID-19 pandemic on the economy, limited operations, and restrictions, customers may accrue arrearages that warrant the provision of additional time for repayment once the emergency has concluded. UGI Gas Statement in Support at 18-19.

The Joint Petitioners recognize that the COVID-19 pandemic continues to change rapidly, and that the extent of federal and state assistance is not fully known. As a result, and in order to protect the Company from an indefinite financial exposure, the ERP Enrollment period will terminate at the end of the December 2020 billing period.⁹⁷ This termination date means that customers will no longer be able to sign up to participate in the ERP after the December 2020 billing period. However, at least 30 days prior to this date, UGI Gas will initiate discussions with the parties to this proceeding to determine whether an extension of customer benefits under the ERP is appropriate.⁹⁸ UGI maintains that, in this way, the interests of the Company, and the possible continuing effects of the COVID-19 emergency on customers, will be balanced and will receive adequate consideration. UGI Gas Statement in Support at 19.

UGI Gas notes that the ERP is the product of many hours of negotiations and discussion focused on meeting customers’ needs in the changing environment created by

⁹⁵ Settlement ¶ 33(a).

⁹⁶ Settlement ¶ 33(b).

⁹⁷ Settlement ¶ 36.

⁹⁸ Settlement ¶ 37.

COVID-19. This program will provide substantial benefits to customers who would not otherwise qualify for assistance, and particularly from collections protection after the conclusion of the emergency period. The program will be open to a broad number of customers, as opposed to many of the Company's current customer assistance programs which are limited to low income customers. Importantly, it will also be available to small business customers, many of whom have been substantially affected by the COVID-19 pandemic. Section III.F of the Settlement creates programs with much needed benefits for a large number of customers and was developed by the Company working closely with advocates representing both consumers and small business interests. UGI Gas asserts that these provisions of the Settlement are in the public interest and should be approved. UGI Gas Statement in Support at 19-20.

I&E notes that the proposed ERP was first raised in settlement negotiations in consideration of the COVID-19 emergency and the PUC Emergency Order. I&E did not submit testimony regarding the ERP to provide billing relief and/or payment relief for customers that may need temporary relief. The general concern raised by the statutory parties and the advocates was and is that in these tenuous COVID-19 emergency economic times, it may be necessary to provide emergency relief to certain ratepayers. I&E notes that it shares these concerns. Therefore, after extensive negotiations, I&E supports the implementation of the proposed ERP as a full and fair compromise that provides regulatory certainty for all parties, which facilitates the Commission's stated preference favoring negotiated settlements as in the public interest. I&E Statement in Support at 19-20.

OCA maintains that the ERP represents an important first step, providing customers who are suffering financially from the pandemic crisis critical support with any arrears accrued during this time. While the extent and impact that COVID-19 will have on customers is not fully known at this time, any additional source of support to customers is critical. In this respect, the arrearage forgiveness piece and extended payment arrangements are critical to the success of this program. By forgiving 25 percent, up to \$400, of arrears accrued between the March 2020 and December 2020 billing cycles and longer payment arrangements for remaining arrears, customers will be afforded additional relief that lightens their burdens in a

small, yet impactful way.⁹⁹ Accordingly, the Joint Petitioners have crafted a program that seeks to provide additional support to customers, although more may need to be done once the full impact is known. The OCA submits that the Commission should approve the ERP, without modification, as this is an important start to addressing these issues and is in the public interest. OCA Statement in Support at 13-14.

F. Tariff Modifications and Consolidation

1. In General

As part of the resolution of this proceeding, the Joint Petitioners agreed to a number of additional discrete issues that are reflected in the Settlement. The resolution of each of these issues, when taken as a whole, are in the public interest, consistent with sound ratemaking, and should be approved as proposed. UGI Statement in Support at 23.

I&E notes that the parties submitted written testimony regarding the various proposed tariff modifications and the proposed modifications were discussed during settlement negotiations among the parties. While the main focus of the settlement negotiations was the modest phased-in revenue increase and the COVID-19 emergency related provisions, it was also necessary to tend to these proposed tariff modifications. After extensive negotiations, I&E supports the implementation of the proposed tariff modifications as full and fair compromises that provides regulatory certainty and a resolution of these tariff modifications, all of which facilitates the Commission's stated preference favoring negotiated settlements, as in the public interest. I&E Statement in Support at 20-21.

2. Line Extensions

UGI Gas proposed in this proceeding to modify its current extension tariff to simplify its policies applicable to short service line and main extensions to new customers and to

⁹⁹ The OCA notes that bill credits provided as part of the ERP are eligible for recovery through the Company's regulatory asset. While Company recovery of these forgiven arrears is appropriate, the Company has made significant concessions to ensure an equitable sharing of the responsibility for recovery of those dollars.

facilitate greater access to natural gas service within the UGI Gas service territory.¹⁰⁰

Specifically, UGI Gas proposed to reduce or eliminate the contribution required for certain customers to connect to the UGI Gas system, if the following four conditions are met:

(1) the service location is directly accessible by an existing or proposed UGI Gas main (non-high pressure), which would be extended by no more than 150 feet;

(2) the service line required to serve the applicant is no more than 150 feet;

(3) the customer will utilize natural gas as their primary heating source and be served under Rates R, RT, N, or NT;

(4) construction for the new main and service line does not require the crossing of private property or right of way or pose a complex construction condition or require unusual permitting requirements.^[101]

UGI Gas maintains that these modifications will make it easier and more economical for homeowners and businesses located near the Company's existing natural gas infrastructure to receive natural gas service from UGI Gas.¹⁰² UGI Gas Statement in Support at 23-24.

OCA, I&E, and OSBA responded to the Company's proposal. OCA was generally supportive of the Company's proposal, because it would further expand the availability of natural gas to residents in the Commonwealth and is consistent with modifications adopted by Columbia Gas of Pennsylvania (Columbia Gas) and Peoples Natural Gas Company (Peoples Natural Gas).¹⁰³ I&E was supportive of the line extension regulations as to Rate R/RT customers, but did not support the proposal as to Rate N/NT customers, and also proposed technical adjustments to distinguish the program from the GET Gas program.¹⁰⁴ Finally, the OSBA did not support the

¹⁰⁰ UGI Gas St. No. 1, pp. 20-23.

¹⁰¹ UGI Gas St. No. 11-R at 3.

¹⁰² UGI Gas St. No. 11-R at 4.

¹⁰³ OCA St. No. 4 at 43-44.

¹⁰⁴ I&E St. No. 6 at 6-7.

proposed line extension regulations, but acknowledged that the Commission had recently adopted a similar policy for Peoples.¹⁰⁵ UGI Gas Statement in Support at 24.

In order to resolve this case, the parties have agreed that the Company's proposed modifications to Tariff Rule 5 – Extension Regulation are approved as filed.¹⁰⁶ However, consistent with I&E's testimony distinguishing the new policies from the GET Gas program, the modified extension provisions will not apply to customers along existing GET Gas designated mains and will not be permitted as a method to extend existing GET Gas mains where GET Gas surcharge payments remain in effect. UGI Gas Statement in Support at 24.

The adoption of economic line extension policies is consistent with Commission policy and with the practices of other utilities. The Commission has consistently supported the expansion of the availability of natural gas as an important public policy. The Commission's Chairman Gladys M. Brown Dutrieuille noted the positive attributes of natural gas expansion:

A number of things are very clear about natural gas – Pennsylvania has an abundant supply; homeowners and businesses across the state are lining up for access; and the PUC continues to challenge utilities to help more consumers tap into this lower-cost and cleaner-burning fuel.^[107]

Further, the Company's proposal is consistent with recent approaches approved by the Commission for Peoples Natural Gas in 2019, and Columbia Gas in 2015.¹⁰⁸ Adopting the line extension policy proposed in the Settlement provides a significant benefit to customers, and to the Commonwealth. UGI Gas Statement in Support at 24-25.

UGI Gas submits that this Settlement provision is in the public interest because it will expand the availability of natural gas to more customers, who otherwise would not be able

¹⁰⁵ OSBA St. No. 1 at 22-28.

¹⁰⁶ Settlement ¶ 38.

¹⁰⁷ Chairman Gladys M. Brown Dutrieuille, Keynote Remarks, May 11, 2015.

¹⁰⁸ *See Pa. Pub. Util. Comm'n v. Peoples Natural Gas Co., LLC*, Docket No. R-2018-3006818 (Order entered October 3, 2019); *Pa. Pub. Util. Comm'n v. Columbia Gas of Pa., Inc.*, Docket No. R-2015-2468056 (Order entered December 3, 2015).

to access service under the Company’s existing tariff provisions. UGI Gas Statement in Support at 25.

OCA notes that in its direct testimony, the OCA was supportive of this tariff change because the proposed changes would expand the availability of lower cost natural gas to those residents of the Commonwealth who are currently unable to benefit from natural gas service.¹⁰⁹ Moreover, these proposed changes are consistent with the modifications adopted for the line extension programs of Columbia Gas and Peoples Natural Gas. Accordingly, OCA maintains that this provision is in the public interest. OCA Statement in Support at 17.

3. Rider F – Universal Service Program Modifications

UGI Gas is permitted to recover costs for its universal service programs under its Universal Service Program (USP) Rider with an annual reconciliation for costs and recoveries. There is an offset for CAP credits and pre-program arrearages for customers receiving shortfall credits that exceed the CAP customer enrollment projected in the last base rate case. This offset reduces the Company’s recovery of CAP spending above projected enrollment to account for write-offs of bad debt that would have arguably occurred if not for CAP. UGI Gas’ as-filed case included a projected consolidated CAP enrollment of 25,297 customers to be used for the offset.¹¹⁰ UGI Gas Statement in Support at 25.

The Joint Petitioners have agreed to resolve this dispute by replacing the Company’s as-filed “25,297” with “the number of CAP enrollees as of September 30, 2020.”¹¹¹ This proposal will provide the most up to date count of CAP enrollees available and will likely reflect the ongoing impacts on CAP that are caused by the COVID-19 pandemic. UGI Gas maintains that this represents a reasonable compromise between the positions supported by OCA and the Company. UGI Gas Statement in Support at 26.

¹⁰⁹ OCA St. 54 at 43.

¹¹⁰ UGI Gas St. No. 1, p. 48.

¹¹¹ Settlement ¶ 39.

The purpose of the bad debt offset is to reflect the extent to which low-income customers who participate in CAP reduce the utility's bad debt expense. OCA notes that the Settlement achieves this goal and is also consistent with the Commission's CAP Policy Statement regarding CAP cost recovery. The Commission's CAP Policy Statement provides that cost recovery for universal services programs should include "both the expenses associated with operating the CAPs as well as the potential decrease of customer utility operating expenses" including bad debt.¹¹² OCA maintains that the proposed bad debt offset is in the public interest and should be approved. OCA Statement in Support at 18.

4. Rate NNS and Rate MBS

The Company's filing included rates for No Notice Service (NNS). Rate NNS is currently an optional daily balancing service offered by the Company to Non-Choice transportation customers. It allows a customer to elect a balancing tolerance greater than the standard basic balancing provided by the Company. Rate MBS is a monthly balancing service offered by the Company that allows transportation imbalances of up to 10% for the month to be carried forward in the customer's MBS account for delivery of excess deliveries, or receipt of shortfalls, in subsequent months. The Company proposed to update the tariffed NNS rate to reflect current cost elements, while retaining the methodology used to develop the current rate.¹¹³ For Rate MBS, the Company proposed to adjust rates so that the rates would be \$0.0197/Mcf for Rates DS and IS, \$0.0111/Mcf for Rate LFD, and \$0.0106/Mcf for Rate XD.¹¹⁴ UGI Gas Statement in Support at 26.

The OCA submitted testimony that purchased gas cost and Non-Choice customers should receive a contribution toward fixed costs associated with the storage assets utilized to provide NNS service.¹¹⁵ Further, OCA sought to adjust the storage trip charge to include the demand charges associated with providing service under Rate NNS.¹¹⁶ In addition, the OCA

¹¹² 52 Pa. Code § 69.266.

¹¹³ UGI Gas St. 1 at 45-46.

¹¹⁴ UGI Gas St. 1 at 46-47.

¹¹⁵ OCA St. No. 4 at 37- 39.

¹¹⁶ *Id.* at 37- 39.

proposed that costs included in development of Rate MBS should include daily deliverability demand charges and that the monthly imbalance percentage in the calculation of Rate MBS be increased to 5% to reflect the additional up-to 5 percent monthly imbalance tolerance provided under the Tariff.¹¹⁷ In its rebuttal testimony, the Company opposed the OCA's proposals for a variety of reasons.¹¹⁸ UGI Gas Statement in Support at 26-27.

UGI Gas maintains that the Settlement resolves the issues raised by the OCA regarding Rate NNS and Rate MBS by continuing the Company's existing method for calculating Rate NNS and Rate MBS.¹¹⁹ This method was approved in *Pa. Pub. Util. Comm'n v. UGI Utilities, Inc. – Gas Division*, Docket No. R-2018-3006814 (Opinion and Order entered Oct. 4, 2019) (*2019 Base Rate Case*), after a thorough review by all parties to that proceeding. As there were no challenges to the existing method, which was found just and reasonable by the Commission within the past year, UGI Gas asserts that it is reasonable to conclude that this method continues to be just and reasonable. UGI Gas Statement in Support at 27.

The OCA noted that maintaining the current method established in the last UGI Gas rate proceeding represented a compromise between the OCA and the Company of similar issues presented before the Commission in this proceeding. Accordingly, the OCA submits that the methodology used in the last proceeding still represents a reasonable approach and supports this provision of the Settlement. OCA Statement in Support at 19. Similarly, IECPA indicated that by retaining the calculation of these charges pursuant to the methodology currently in place, the Settlement results in a solution that does not adversely impact any party or prejudice any position for future litigation. IECPA Statement in Support at 4-5.

5. Choice Supplier Tariff Rules

In its direct case, the Company proposed to modify its Tariff Rule 10. No party opposed the revised Tariff language. As a result, UGI Gas maintains that the Company's

¹¹⁷ *Id.* at 39-41.

¹¹⁸ UGI Gas St. 1-R at 51-53.

¹¹⁹ Settlement ¶ 40.

proposed language clarifications related to Tariff Rule 10 - Failure to Comply with an OFO or DFD should be approved as-filed.¹²⁰ UGI Gas Statement in Support at 27.

6. Other

The Settlement includes a number of tariff changes that were included in the Company's direct filing, and which were not opposed by any party to this proceeding.¹²¹ UGI Gas maintains that these changes provide more clarity on existing tariff provisions, and make necessary updates based on the impact of this and other proceedings on the identified rates and riders, and should be approved. UGI Gas Statement in Support at 27.

7. Chapter 71

Pursuant to the *Joint Application of UGI Utilities, Inc., UGI Penn Natural Gas, Inc., and UGI Central Penn Gas, Inc.*, which was approved on September 20, 2018, UGI Gas was permitted to merge its three pre-existing Natural Gas Distribution Companies (NGDCs) into a single NGDC.¹²² This merger was completed on October 1, 2018. Thereafter, the merged company (UGI Gas) provided service under a Commission-approved three rate district structure,¹²³ for UGI South Rate District, UGI North Rate District and UGI Central Rate District. As part of the merger, the Commission directed UGI Gas to continue to file its Chapter 71

¹²⁰ Settlement ¶ 41.

¹²¹ Settlement ¶ 42.

¹²² See *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, Inc. 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, Inc. 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 and A-2018-3000383 (Opinion and Order entered September 20, 2018).

¹²³ See *Id.*, Recommended Decision at 7-9.

earnings reports on a rate district basis, until the Commission determined that a single filing was appropriate. UGI Gas Statement in Support at 28.

As part of this proceeding, the Company proposed that it should be permitted to file its Chapter 71 earnings reports on a consolidated basis, rather than by former rate district.¹²⁴ No party opposed this proposal, and the Settlement adopts the Company's proposal.¹²⁵ UGI Gas maintains that this is in the public interest because it will reduce the administrative burden on the Company, the parties, and the Commission, and because it accurately reflects that the Company is now operating as a single jurisdictional entity. UGI Gas Statement in Support at 28.

8. Uniform Distribution Rates and Riders

As a result of the merger previously described, UGI Gas commenced operations as a single NGDC with three rate districts. The merger did not impact the rates of the three rate districts, and the Settlement in that proceeding indicated that the issue of unified rates should be addressed in a future base rate proceeding. In the *2019 Base Rate Case*, UGI Gas was authorized to fully consolidate the rates, except for former North Rate District customers on Rates N/NT and DS not being placed on uniform rates with the consolidated rates for former South and Central Rate District Rate N/NT and DS customers. As part of this proceeding, UGI Gas proposed to fully consolidate Rates N/NT and Rate DS.¹²⁶ OSBA opposed the Company's consolidation.¹²⁷ UGI Gas Statement in Support at 29.

As a result of the COVID-19 pandemic, and the challenges facing small businesses due to the associated closures and stay-at-home orders, UGI Gas agreed to withdraw its proposal to unify Rates N/NT and DS.¹²⁸ The parties agreed that the Company may propose to fully harmonize rates in the Company's next base rate case, which will be filed no sooner than January 1, 2022 pursuant to the stay-out provision. As a result, the Company's proposal to fully

¹²⁴ UGI Gas St. No. 1 at 14-15.

¹²⁵ Settlement ¶ 44.

¹²⁶ UGI Gas St. No. 1 at 41.

¹²⁷ OSBA Statement No. 1 at 38-43.

¹²⁸ Settlement ¶ 45.

harmonize distribution rates for Rates N/NT and DS is withdrawn without prejudice. UGI Gas Statement in Support at 29.

OSBA witness Knecht provided a detailed background on the issue of rate harmonization, as follows:

Prior to 2018, UGI Utilities, Inc. had one operating division that was a regulated gas utility and two subsidiary gas utilities, namely UGI Central Penn Gas and UGI Penn Natural Gas. At Docket Nos. A-2018-300381/2/3, the Commission approved the merger of these three entities into the UGI Utilities, Inc. (Gas Division), although separate regulations and tariffs continued to apply to each of the three ‘rate districts’ (denoted South, Central, and North respectively). However, for several years prior to the merger, the Company had substantially harmonized the rate class definitions and eligibility rules for the three entities. In the Company’s last base rates case at Docket No. R-2018-3006814, the Company proposed to fully harmonize the tariffs for the three rate districts, both with respect to the purchased gas cost (‘PGC’) rate charged to utility gas sales customers and the base rates tariff charges for distribution and related services.

In that proceeding, I objected in testimony to the full harmonization in a single step, due to the rate shock implications. These effects would have been particularly severe for the Rate N/NT customers and Rate DS customers in the North rate district. The settlement in that proceeding provided for full harmonization of the PGC rate, and it harmonized base rates for the South and Central districts. However, it retained base rate differentiations between the North rate district and the South/ Central rate districts, for Rate N/NT and Rate DS. The settlement explicitly recognized that the Company could propose full harmonization in its next base rates case, and that parties could oppose such a proposal.

In this proceeding, the Company proposes to fully harmonize the base distribution rates for Rate N/NT and Rate DS.^[129]

Mr. Knecht set forth the Company’s proposed changes in tariff charges, as well as the bill implications for the average customer, in the following Table:

¹²⁹ OSBA Statement No. 1, at 33 (footnotes omitted).

Table IEC-5 UGI Gas Rate Design Proposal: Rate N/NT and DS						
	Rate N/NT			Rate DS		
	Current Rate	Proposed Rate	Percent	Current Rate	Proposed Rate	Percent
Customer Charge (\$/mo.)	23.50	30.00	27.7%	260.00	260.00	0.0%
Distribution Charge (\$/mcf) South/Central	3.5177	3.6671	4.3%	2.9550	2.8033	-5.1%
Distribution Charge (\$/mcf) North	3.1559	3.6671	16.2%	2.1335	2.8033	31.4%
Typical Bill (\$/Year) South/Central	\$1,859	\$2,004	7.8%	\$23,477	\$22,432	-4.5%
Typical Bill (\$/Year) North	\$1,696	\$2,004	18.1%	\$17,818	\$22,432	25.9%
* Note that typical bill is based on customer and distribution charges only, excluding PGC and other charges for specific functions. Sources: RDK WP1.						

As shown in Table IEC-5, Rate N/NT (North) and Rate DS (North) would face extremely large rate increases under the Company’s original proposal. OSBA Statement in Support at 8-9.

Ultimately, Mr. Knecht recommended, as follows:

In light of the macroeconomic context for this proceeding, the likelihood that any allowed rate increase would be minimal, and the fact that North district ratepayers just experienced a large increase, I conclude that this is not the right time to try to make substantial progress toward rate harmonization, for either Rate N/NT or Rate DS. I therefore recommend that the same percentage increase be assigned to the North district tariff charges as is applied to the South and Central rate district charges in this proceeding.^[130]

OSBA Statement in Support at 9.

OSBA notes that the Joint Petition proposes to adopt Mr. Knecht’s recommendations. First, the Joint Petition proposes to drop the issue of rate harmonization until

¹³⁰ OSBA Statement No. 1, at 36.

a future proceeding.¹³¹ Second, the Joint Petition's volumetric rate increases for the N/NT and DS rate classes are the same for the former South and Central rate district customers as for the former North district customers.¹³² Consequently, as the Joint Petition proposes to follow Mr. Knecht's testimony on this issue, the OSBA submits that the proposed resolution is just and reasonable. OSBA Statement in Support at 10.

9. DSIC-eligible Plant Balances

The Settlement provides that, as of the effective date of rates in this proceeding, UGI Gas will be eligible to include plant additions in the DSIC once the Company's total net plant balances reach a level of \$2,875,056,000. The Joint Petitioners agree that this provision is included solely for purposes of establishing when the Company's DSIC may become effective and is not determinative for future ratemaking purposes of the projected additions to be included in rate base.¹³³ This provision fully complies with the requirements 66 Pa.C.S. § 1358 and the Commission's Model Tariff that the DSIC be set to zero as of the effective date of new base rates that include the DSIC-eligible plant. UGI Gas Statement in Support at 29-30.

UGI Gas notes that this threshold provides UGI Gas a reasonable opportunity to recover its capital costs incurred to repair, improve, or replace its aging distribution infrastructure that is placed in service between base rate cases, which, in turn, provides customers with enhanced gas service safety and reliability benefits. UGI Gas further notes that this settlement provision is similar to other settlement provisions the Commission has adopted in recent proceedings.¹³⁴ For these reasons, UGI Gas submits that this settlement provision should be approved without modification. UGI Gas Statement in Support at 30.

¹³¹ Settlement ¶ 45.

¹³² Joint Petition, Appendix B, at 3-4.

¹³³ Settlement ¶ 46.

¹³⁴ See, e.g., *Pa. Pub. Util. Comm'n v. Columbia Gas of Pa., Inc.*, Docket No. R-2014-2406274 (Opinion and Order entered Dec. 10, 2014); *Pa. Pub. Util. Comm'n v. UGI Utilities, Inc. – Gas Division*, Docket No. R-2015-2518438 (Opinion and Order entered Oct. 14, 2016), *Pa. Pub. Util. Comm'n v. UGI Utilities, Inc. – Gas Division*, Docket No. R-2018-3006814 (Opinion and Order entered Oct. 4, 2019).

The OCA notes that in typical settlements it advocates for setting this threshold amount at the projected net plant balance at the end of the FPFTY. In other words, under a traditional settlement, the Company would not be able to implement a DSIC until its net plant balance exceed the amounts projected at the end of the FPFTY or after the end of the FPFTY, whichever is later. In light of the changes in construction activity and the uncertainty of future construction activity, the OCA is supportive of the amount agreed upon in this Settlement. The OCA submits that the unusual circumstances surrounding this Settlement necessitate unusual agreements to come to a unanimous agreement in this proceeding. Moreover, the OCA maintains that this provision, coupled with the provision for DSIC Calculation Return on Equity at Settlement ¶ 47, will ensure that the Company's DSIC rates are calculated properly and prevent duplicative recovery of DSIC-eligible expenditures in base rates and DSIC rates. OCA Statement in Support at 20.

10. DSIC Calculation Return on Equity

The Settlement further provides that, for purposes of calculating its DSIC, UGI Gas shall use the equity return rate for gas utilities contained in the Commission's most recent Quarterly Report on the Earnings of Jurisdictional Utilities as updated each quarter consistent with any changes to the equity return rate for gas utilities contained in the most recent Quarterly Earnings Report, consistent with 66 Pa. C.S. § 1357(b)(3), until such time as the DSIC is reset pursuant to the provisions of 66 Pa. C.S. § 1358(b)(1).¹³⁵ UGI Gas maintains that this Settlement provision is in the public interest because it satisfies the Commission's request that parties to a rate case settlement identify a return on equity for DSIC computation purposes.¹³⁶ UGI Gas Statement in Support at 30.

As previously noted, the OCA maintains that this provision, coupled with the provision for DSIC-eligible Plant Balances at Settlement ¶ 46, will ensure that the Company's DSIC rates are calculated properly and prevent duplicative recovery of DSIC-eligible expenditures in base rates and DSIC rates. OCA Statement in Support at 20.

¹³⁵ Settlement ¶ 47.

¹³⁶ See *Pa. Pub. Util. Comm'n v. UGI Utilities, Inc. – Gas Division*, Docket No. R-2015-2518438, p. 27 (Opinion and Order entered Oct. 14, 2016).

IECPA noted that the question of UGI's allowed overall ROE was a significant issue for IECPA in this proceeding. Although the Settlement does not specify a ROE for the Company, IECPA believes that the overall reduced revenue requirement increase will have a beneficial impact on ratepayers while permitting the Company a reasonable opportunity to earn a return on its investment. The Settlement's resolution to use the equity return rate for gas utilities contained in the Commission's most recent Quarterly Report on the Earnings of Jurisdictional Utilities, for the limited purpose of calculating UGI's DSIC, is consistent with the Commission's approval of base rate case settlements in other cases. Therefore, for this limited purpose, IECPA believes that the Settlement's resolution of this issue is reasonable. IECPA Statement in Support at 5.

G. COVID Cost Deferral

As part of the comprehensive COVID-19 package of provisions, the parties have agreed that UGI Gas will be allowed to defer and recover over time the extraordinary expenses the Company may incur as it responds to the changing landscape created by the pandemic. Specifically, Section III.H of the Settlement allows UGI Gas to track COVID-19 pandemic costs, record them as a regulatory asset, and defer COVID-19 pandemic related costs for future recovery in the Company's next base rate proceeding.¹³⁷ When these deferred costs are included for ratemaking purposes, they will be recovered over a 10-year amortization period without interest on unamortized amounts.¹³⁸ UGI Gas Statement in Support at 20.

The parties have identified the types of costs that are eligible for deferral and cost recovery in the Settlement.¹³⁹ The identified eligible costs, and Section III.H in general, are

¹³⁷ Settlement ¶ 48.

¹³⁸ *Id.*

¹³⁹ The costs eligible for deferred accounting include reasonable and prudently incurred, incremental labor-related costs; costs incurred to maintain employee and contractor availability; incremental health care related costs; incremental worker's compensation costs; incremental occupational safety equipment, contractor, and personnel costs; annual uncollectible accounts expense in excess of \$12.81 million beginning with the fiscal year period ending September 30, 2020 and continuing for annual periods thereafter until the effective date of the Company's next base rate filing; ERP related costs as defined in Unopposed Settlement Paragraph 35; and COVID-19 Pandemic costs that cause operating costs for the specific FERC account to exceed budgeted FTY and FPFTY levels or, in the case of uncollectible accounts expense, \$12.81 million (Settlement ¶ 49).

consistent with prior Commission orders wherein the Commission has granted deferred accounting for expenses that are extraordinary, not reasonably foreseeable, and non-recurring.¹⁴⁰ The Joint Petitioners agree that the COVID-19 pandemic will cause the Company to incur expenses, as defined in Paragraph 49 of the Settlement, that are “extraordinary, not reasonably foreseeable, and non-recurring” and therefore meet the definition used by the Commission to determine that deferred accounting is appropriate. UGI Gas Statement in Support at 20-21.

As a further protection for customers, the Company will maintain records, documents, and other information necessary to demonstrate that its claimed costs qualify as COVID-19 pandemic Costs.¹⁴¹ The Joint Petitioners have also agreed that the Company must exercise prudent efforts to maximize its utilization of and track any government benefits, whether direct grant, tax credits, or some other external relief, to minimize costs to be deferred.¹⁴² As part of the Company’s next base rate case, it will provide a report detailing its efforts, any amounts obtained as part of these efforts and their intended use, and, if denied, the reason for the denial.¹⁴³ Finally, all parties reserve the right to review the prudence and reasonableness of these costs in the next base rate proceeding.¹⁴⁴ UGI Gas Statement in Support at 21-22.

¹⁴⁰ See, e.g., *Petition of PPL Electric Utilities Corp. for Authority to Defer, for Accounting Purposes, Certain Unanticipated Expenses Relating to Storm Damage*, Docket No. P-2012-2338996 (Feb. 14, 2013) (authorizing the deferral and amortization of certain expenses related to extraordinary and non-recurring storm damage); *Petition of PPL Electric Utilities Corp. for Authority to Defer for Accounting and Financial Reporting Purposes Certain Losses from Extraordinary Winter Storm Damage and to Amortize Such Losses*, Docket No. P-00052148 (August 25, 2005) (authorizing deferral and amortization of extraordinary winter storm damage); *Petition of PPL Electric Utilities Corp. for Authority to Defer for Accounting and Financial Reporting Purposes Certain Losses from Extraordinary Storm Damage and to Amortize Such Losses*, 231 P.U.R.4th 521 (2004) (Commission approved deferral of expenses associated with storm related damages); *Petition of Mechanicsburg Water Co.*, Docket No. P-910500 (September 25, 1991) (Approved deferral for accounting purposes of capital and other costs associated with water treatment plant expansion.); *Petition of Pa. Gas & Water Co.*, Docket No. P-900454 (September 5, 1990) (Approved deferral of costs of four water treatment plants that were nearing completion.); and *Petition of Pa. Gas & Water Co.*, Docket No. P-920586 (October 21, 1992) (Approved deferral for accounting purposes of water treatment plant costs.).

¹⁴¹ Settlement ¶ 48.

¹⁴² Settlement ¶ 50.

¹⁴³ *Id.*

¹⁴⁴ Settlement ¶ 48.

The Commission has allowed public utilities to defer costs for accounting and financial reporting purposes on numerous occasions, and has recently encouraged utilities to track and defer COVID-19 pandemic costs. In a Secretarial Letter issued on May 13, 2020, to initiate the *COVID-19 Cost Tracking and Creation of Regulatory Asset*, Docket No. M-2020-3019775, the Commission instructed utilities to track “prudently incurred incremental extraordinary, nonrecurring expenses related to COVID-19”¹⁴⁵ so as to “claim the deferred expenses at their first available opportunity.”¹⁴⁶ The provisions of Section III.H generally track the language of the May 13 Secretarial Letter. Further examples of past deferrals for expenses meeting the Commission’s standard for deferred accounting include deferrals for storm damage, changed regulatory requirements, and construction delays. The deferral terms reflected in Section III.H and supported by the Joint Petitioners are similar in nature to prior Commission precedents addressing extraordinary, unforeseen, and non-recurring expenses, and are specifically within the scope of the expenses contemplated by the May 13 Secretarial Letter. UGI Gas Statement in Support at 22.

The Joint Petitioners recognize that the COVID-19 pandemic may have a significant impact on UGI Gas’ expenses, and that the customer relief programs included in the Settlement will require the Company to incur costs above what it had anticipated at the outset of this rate case. Further, this deferred accounting is critical in light of the tremendous uncertainty surrounding the pandemic, including how long restrictions will continue, and the overall suppressing effect that those restrictions are having on local, state, and federal economies. Finally, this deferred accounting provision was a necessary component in support of the stay-out provision, which would prevent the Company from seeking to incorporate these unanticipated and unknown expenses into rates at a time prior to a January 1, 2022 filing date. UGI Gas Statement in Support at 22-23.

¹⁴⁵ May 13, 2020 Secretarial Letter at 1.

¹⁴⁶ May 13, 2020 Secretarial Letter at 3.

For these reasons, and in consideration of the total package of COVID-19 related provisions that the Joint Petitioners have agreed to, the deferred accounting treatment for COVID-19 costs is in the public interest and should be approved. UGI Gas Statement in Support at 23.

I&E notes that the proposed COVID-19 emergency cost deferral and costs tracking was first proposed by the Company. I&E did not submit testimony regarding the COVID-19 cost deferral and costs tracking. The general concern raised by the statutory parties and the advocates was and is that in these tenuous COVID-19 emergency economic times, many customers in all rate classes may experience financial difficulties. Further, I&E shares the concerns raised by the parties. At approximately the time of the first settlement negotiations, the Commission offered guidance in the form of the Secretarial Letter. After extensive negotiations, I&E now supports the proposed COVID-19 emergency cost deferral settlement terms as a full and fair compromise that provides additional assistance in these tenuous economic times, regulatory certainty, and a resolution of this issue, all of which facilitates the Commission's stated preference favoring negotiated settlements as in the public interest. I&E Statement in Support at 23-24.

Similar to I&E, the OCA maintains that these provisions are consistent with the Commission's recent Secretarial Letter authorizing deferral accounting treatment for COVID-19 related costs. The OCA further maintains that the Commission frequently approves deferred accounting treatment of extraordinary, non-recurring, one-time costs.¹⁴⁷ Accordingly, the OCA believes that deferred accounting treatment is appropriate in this instance. The COVID-19 pandemic is likely to impose extraordinary, non-recurring costs on utilities, and the Settlement provides important protections to ensure that any recovery is limited to dollars in excess of costs that are already included in rates. Moreover, the Company's agreement to amortize these costs over a period of ten years and forego any interest on the unamortized portion ensures an

¹⁴⁷ *Petition of PPL Electric Utilities Corp. for Authority to Defer for Accounting and Financial Reporting Purposes Certain Losses from Extraordinary Storm Damage and to Amortize Such Losses*, Docket No. P-00032069, 2004 Pa. PUC LEXIS 24, at *7 (Pa. PUC Jan. 16, 2004), *Petition of West Penn Power Co. for Authority to Defer for Regulatory Accounting and Reporting Purposes Certain Losses from Extraordinary Storm Damage*, Docket No. P-2010-2216111, 2011 Pa. PUC LEXIS 1270, at *7-8 (Pa. PUC Apr. 1, 2011).

equitable sharing of the responsibility for additional costs and economic impacts occurring during this difficult time. OCA Statement in Support at 15.

H. Accounting

1. In General

The Company, I&E and the parties submitted written testimony regarding the various proposed accounting settlement terms and the proposed accounting settlement terms were discussed during settlement negotiations among the parties. While the main focus of the settlement negotiations was the modest phased-in revenue increase and the COVID-19 emergency related provisions, it was also necessary to tend to these proposed accounting settlement terms. After extensive negotiations, I&E supports the implementation of the proposed accounting settlement terms as a full and fair compromise that provides regulatory certainty, and a resolution of these tariff modifications, all of which facilitates the Commission's stated preference favoring negotiated settlements as in the public interest. I&E Statement in Support at 24-25.

2. Environmental Cost Recovery

a. Annual Environmental Expense

UGI Gas' environmental remediation expense claim enables the Company to fully recover the costs incurred in connection with its obligations under Consent Orders and Agreements (COAs) with the Pennsylvania Department of Environmental Protection (DEP) to remediate former manufactured gas plants (MGPs). In its filing, UGI Gas claimed \$4.188 million for prospective environmental remediation expense based on the simple average of the last three years of cash expenditures for MGP remediation expense.¹⁴⁸ No party challenged the prospective environmental remediation expense in the Company's filed case. UGI Statement in Support at 31.

¹⁴⁸ UGI Gas St. No. 2, at 17-19.

The Settlement includes an annual amount of \$4.188 million for recovery of future environmental costs as a compromise to its rebuttal position.¹⁴⁹ The \$4.188 million annual remediation expense is consistent with the unchallenged amount set forth by UGI Gas in its direct case and is reasonable. Further, the Settlement provides that annual differences between \$4.188 million and actual expenditures shall be deferred as a regulatory asset (where expenditures are greater than \$4.188 million per year) or as a regulatory liability (where expenditures are less than \$4.188 million on an annual basis) and accumulated for book and ratemaking purposes until UGI Gas' next base rate case.¹⁵⁰ This cost treatment protects customers from over-recoveries and UGI Gas from under-recoveries for this non-revenue producing and non-expense reducing category of expense. UGI Gas submits that this Settlement provision is in the public interest because it is consistent with the Company's method for calculating prospective remediation costs and the historic ratemaking treatment of its annual remediation expense differences. UGI Statement in Support at 31.

b. Amortization of Environmental Expense

In prior cases, the Commission approved a reconciliation mechanism that permitted the Company to accumulate, defer and obtain ratemaking recovery for environmental costs incurred in compliance with the COAs that exceeded established annual ratemaking levels less any cost shortfall in years where actual expenditures fell below that level.¹⁵¹ In this proceeding, UGI Gas proposed to recover the remaining \$6.482 million of the previously approved 5-year \$8.103 million amortization over the remaining four-year amortization period.¹⁵² UGI Gas also proposed to amortize deferred 2019 MGP remediation expenses totaling \$1.219 million through a single year amortization tied to its planned 2021 rate case.¹⁵³ I&E

¹⁴⁹ Settlement ¶ 51.

¹⁵⁰ Settlement ¶ 51.

¹⁵¹ See, e.g., *Pa. Pub. Util. Comm'n v. UGI Utilities, Inc. – Gas Division*, Docket No. R-2018-3006814 (Opinion and Order entered Oct. 4, 2019).

¹⁵² UGI Gas St. No. 2, pp. 17-19.

¹⁵³ *Id.*

recommended a five-year amortization period for the 2019 expenses, and therefore recommended an annual expense of \$243,800.¹⁵⁴ UGI Gas Statement in Support at 32.

In the Settlement, the Joint Petitioners agreed to the continue the five-year amortization period of the remaining amount of the previously approved \$8.103 million of pre-2019 deferred environmental costs.¹⁵⁵ Moreover, the Joint Petitioners have agreed to permit the Company to amortize the \$1.219 million balance applicable to fiscal year 2019 over the five-year period beginning January 1, 2021 at \$243,800 per year, consistent with I&E's position. UGI Gas submits that this Settlement provision is in the public interest because it is consistent with the deferral reconciliation mechanism authorized by the Commission. In addition, this cost treatment should protect customers from over-recoveries and UGI Gas from under-recoveries for this non-revenue producing and non-expense reducing category of expense. Finally, this provision of the Settlement reflects a balance between the litigation positions of I&E and the Company. UGI Gas Statement in Support at 32.

3. ADIT/EDFIT

In its initial rate filing, UGI Gas included a FPPTY Accumulated Deferred Income Tax (ADIT) calculation, based upon a pro-rationing methodology required under Treasury Regulation 1.167(l)-1(h)(6)(ii) that is necessary to be in compliance with Internal Revenue Service (IRS) normalization requirements.¹⁵⁶ As part of the Settlement, the Joint Petitioners agreed to accept the Company's ADIT and pro-rationing methodology as required by Treasury Regulation 1.167(l)-1(h)(6)((ii)).¹⁵⁷ In addition, the Company's method to amortize Excess Accumulated Deferred Federal Income Taxes (EDFIT) according to the Average Rate Assumption Method (ARAM) is accepted.¹⁵⁸ UGI Gas Statement in Support at 33.

¹⁵⁴ I&E St. No. 1, at 27-30.

¹⁵⁵ Settlement ¶ 51.

¹⁵⁶ UGI Gas St. No. 10, at 6-8.

¹⁵⁷ Settlement ¶ 52.

¹⁵⁸ *Id.*

UGI Gas maintains that this Settlement provision is in the public interest because it reflects that the Company's claim is based on a FPFTY and ensures compliance with IRS normalization requirements. The Settlement further provides that, absent a change in federal or state law, regulation, judicial precedent or policy, the remaining unamortized EDFIT balance will continue as a reduction to rate base in all future proceedings until the full amount is returned to ratepayers. UGI Statement in Support at 33.

4. Repairs Allowance

In its filing, UGI Gas proposed to continue to normalize the repairs tax expense deduction for federal income tax purposes over the book life of the plant giving rise to the deduction.¹⁵⁹ No party challenged or otherwise opposed the Company's proposal. UGI Gas Statement in Support at 33.

As part of the Settlement, the Joint Petitioners agree that all capitalized repairs deductions claimed on a tax return have been normalized for ratemaking purposes and the appropriate related amount of tax effect of those deductions has been reflected as ADIT as a reduction to UGI Gas' rate base.¹⁶⁰ The Settlement continues the practice that UGI Gas has followed since its adoption of the current methodology used for calculating the repairs allowance. Normalization benefits customers by ensuring that they receive a fair portion of the benefit of the repairs allowance deduction through rate base, over the life of the plant giving rise to the deductions, regardless of when UGI Gas files a rate case. Moreover, normalizing the repairs allowance deduction provides an important source of cash flow to UGI Gas that can be used to support UGI Gas' large, related capital spending program and reduce outside borrowing. UGI Gas Statement in Support at 33-34.

¹⁵⁹ UGI Gas St. No. 10, pp. 8-9.

¹⁶⁰ Settlement ¶ 53.

5. Depreciation Rates

UGI Gas' depreciation studies, accrued depreciation claim, and annual depreciation expense claim were set forth in UGI Gas Statement No. 9 and UGI Gas Exhibits C (Historic), C (Future), and C (Fully Projected). No party filed testimony in opposition to the Company's claimed depreciation. UGI Gas Statement in Support at 34.

As part of the Settlement, the Joint Petitioners agree to accept UGI Gas' as-filed depreciation rates.¹⁶¹ UGI Gas submits that this Settlement provision is in the public interest because it properly accounts for the Company's outlook and plans, and is consistent with the depreciation procedure used by most other Pennsylvania utilities. UGI Gas Statement in Support at 34.

I. Recommendation

I find the proposed Settlement to be reasonable and in the public interest. I therefore recommend approval without modification. The Settlement represents a just and fair compromise of the serious issues raised in this proceeding. After substantial investigation and discovery, the settling parties have reached a reasoned accord on a broad array of issues resulting in just and reasonable rates for gas service rendered by UGI Gas.

The Settlement is a "black box" settlement. This means that the parties could not agree as to each and every element of the revenue requirement calculations. The Commission has recognized that "black box" settlements can serve an important purpose in reaching consensus in rate cases:

We have historically permitted the use of "black box" settlements as a means of promoting settlement among the parties in contentious base rate proceedings. Settlement of rate cases saves a significant amount of time and expense for customers, companies, and the Commission and often results in alternatives that may not have been realized during the litigation process. Determining a company's revenue requirement is a calculation involving many

¹⁶¹ Settlement ¶ 54.

complex and interrelated adjustments that affect expenses, depreciation, rate base, taxes and the company's cost of capital. Reaching an agreement between various parties on each component of a rate increase can be difficult and impractical in many cases.^[162]

Yet, it is also the Commission's duty to ensure that the public interest is protected. Therefore, there must be sufficient information provided in a settlement in order for the Commission to determine that a revenue requirement calculation and accompanying tariffs are in the public interest and properly balance the interests of ratepayers and the company.¹⁶³

In reviewing the Settlement terms and the accompanying statements in support, the Settlement provides sufficient information to support the conclusion that the revenue requirement and other Settlement terms are in the public interest. The substantial downward adjustment to the proposed revenue requirement, the phased-in revenue increase, the revenue allocations, the temporary one-year increase in monthly customer charge, the provisions to assist customers in light of the COVID-19 pandemic, along with all the other terms and conditions of the Settlement, together represent a fair and reasonable compromise. The downward adjustment to the proposed revenue requirement and the temporary increase to the monthly customer charge are particularly important to those residential ratepayers who offered testimony regarding the hardship they would incur due to UGI Gas' proposed increase in rates. Similarly, the "Customer Assistance, Including Payment Troubled and Low Income Customers" and "COVID-19 Emergency Relief" portions of the Settlement offer reasonable resolutions to address residential and low-income customer issues and concerns raised by the parties during this proceeding as well as the concerns raised by those who testified at the Public Input Hearings.

Also of note, the Settlement finds support from a broad range of parties with diverse interests. Each party represents a variety of interests. UGI Gas advocates on behalf of its corporate interests. The OCA is tasked with advocacy on behalf of Pennsylvania consumers

¹⁶² *Pa. Pub. Util. Comm'n v. Peoples TWP LLC*, Docket No. R-2013-2355886 at 27 (Opinion and Order entered December 19, 2013)(citations omitted).

¹⁶³ *See Pa. Pub. Util. Comm'n v. Pa. Power Co.*, 55 Pa. PUC 552, 579 (1982); *Pa. Pub. Util. Comm'n v. National Fuel Gas Dist. Corp.*, 73 Pa. PUC 552, 603-605 (1990).

in matters before the Commission.¹⁶⁴ The OSBA represents the interests of the Commonwealth's small businesses.¹⁶⁵ The I&E is tasked with balancing these various interests and concerns on behalf of the general public interest. Each of these public advocates maintain that the interests of their respective constituencies have been adequately protected and they further represent that the terms of the Settlement are in the public interest. Other interests were also represented, and they too support the Settlement. These interests include an association of energy-intensive industrial consumers (IECPA), as well as United States Government agencies maintaining offices, facilities or installations within UGI Gas' service territory (DOD/FEA). These parties, in a collaborative effort, have reached agreement on a broad array of issues, demonstrating that the Settlement is in the public interest and should be approved.

Resolution of this proceeding by negotiated settlement removes the uncertainties of litigation. In addition, all parties will benefit by the reduction in rate case expense and the conservation of resources made possible by adoption of the Settlement in lieu of litigation. The acceptance of the Settlement will negate the need for participation at in-person hearings or the filing of main and reply briefs on the issues contained in the Settlement, exceptions and reply exceptions, and potential appeals. These savings in rate case expense serve the interests of UGI Gas and its ratepayers, as well as the parties themselves.

As to the non-settling parties, Ms. Cameron, Mr. Torakeo and Ms. Hanle, each party was provided a copy of the Joint Petition for Approval of Unopposed Settlement of All Issues and offered an opportunity to comment or object to its terms. Not one of these consumer Complainants responded. Inasmuch as their due process rights have been fully protected, their formal Complaints can be dismissed for lack of prosecution.¹⁶⁶ As previously noted, if Mr.

¹⁶⁴ Section 904-A of the Administrative Code of 1929, Act of April 9, 1929, P.L. 177, *as amended*, 71 P.S. § 309-1.

¹⁶⁵ Section 399.45 of the Small Business Advocate Act, Act of December 21, 1988, P.L. 1871, 73 P.S. § 399.45.

¹⁶⁶ *See, Schneider v. Pa. Pub. Util. Comm'n*, 83 Pa.Cmwth. 306, 479 A.2d 10 (1984) (Commission is required to provide due process to the parties, which is satisfied when the parties are afforded notice and an opportunity to be heard).

Zivny disagrees with this Recommended Decision, he may file exceptions in accordance with 52 Pa.Code § 5.533.

For all of the foregoing reasons, I find the terms embodied in the Joint Petition for Approval of Unopposed Settlement of All Issues are both reasonable and its approval is in the public interest. Accordingly, I recommend the Commission approve the Settlement without modification.

IX. CONCLUSIONS OF LAW

1. The Commission has jurisdiction over the subject matter and parties in this case. 66 Pa.C.S. § 1308(d).

2. The burden of proof in a ratemaking proceeding is on the public utility. *See* 66 Pa.C.S. § 315(a); *Lower Frederick Twp. v. Pa. Pub. Util. Comm'n.*, 48 Pa. Commw. 222, 226-27, 409 A.2d 505, 507 (1980) (citations omitted). *See also*, *Brockway Glass v. Pa. Pub. Util. Comm'n.*, 63 Pa. Commw. 238, 437 A.2d 1067 (1981).

3. To determine whether a settlement should be approved, the Commission must decide whether the settlement promotes the public interest. *Pa. Pub. Util. Comm'n v. CS Water & Sewer Assoc.*, 74 Pa. PUC 767 (1991); *Pa. Pub. Util. Comm'n v. Philadelphia Electric Co.*, 60 Pa. PUC 1 (1985).

4. The Joint Petition for Approval of Settlement of All Issues at Docket No. R-2019-3015162, submitted by UGI Utilities, Inc. – Gas Division, the Bureau of Investigation & Enforcement, the Office of Consumer Advocate, the Office of Small Business Advocate, the Industrial Energy Consumers of Pennsylvania, and the U.S. Department of Defense and all other Federal Executive Agencies, promotes the public interest and therefore should be approved as submitted, without modification.

5. The Commission is required to provide due process to the parties; when parties are afforded notice and an opportunity to be heard, the Commission requirement to provide

due process is satisfied. *Schneider v. Pa. Public Utility Comm'n*, 83 Pa.Cmwlth. 306, 479 A.2d 10 (1984).

X. ORDER

THEREFORE,

IT IS RECOMMENDED:

1. That the Joint Petition for Approval of Unopposed Settlement of All Issues (Settlement), including attachments, be admitted into the record of this proceeding.
2. That the Settlement be approved without modification.
3. That the proposals set forth in UGI Utilities Inc. – Gas Division’s January 28, 2020 distribution base rate increase filing at Docket No. R-2019-3015162, be approved subject to the terms and conditions of the Settlement.
4. That the *pro forma* tariff attached to the Unopposed Settlement as Appendix A is approved.
5. That UGI Utilities Inc. – Gas Division be authorized to file the tariff approved in Ordering Paragraph 4 on the later of October 1, 2020, or on the first day after Commission approval.
6. That the Proof of Revenues attached to the Settlement as Appendix B be approved.
7. That UGI Utilities Inc. – Gas Division be authorized to file the Proof of Revenues referred to in Ordering Paragraph 6 with its tariff filing.

8. That UGI Utilities Inc. – Gas Division shall allocate the authorized increase in operating revenue to each customer class and rate schedule within each in the manner prescribed in the Settlement.

9. That in consideration of the comprehensive settlement reached, the Company shall not file a Section 1308(d) general rate increase prior to January 1, 2022. The Company shall not be prevented from filing a tariff or tariff supplement proposing a general increase in rates in compliance with Commission orders or in response to fundamental changes in regulatory policies or federal tax policies affecting the Company's rates.

10. That UGI Utilities Inc. – Gas Division be authorized to implement rates designed to produce an annual distribution rate revenue increase of \$20 million. This increase will be phased-in and partly deferred, as described in Paragraph III.C.23 of the Settlement, and as reflected in Appendices A and B of the Settlement.

11. That UGI Utilities Inc. – Gas Division be permitted to recover the deferral amount of \$6.16 million over the period October 1, 2021 through September 30, 2022 through a temporary increase to the otherwise applicable monthly customer charge, as described in Paragraph III.C.24 of the Settlement.

12. That there be no monthly customer charge increases other than the temporary customer charge increases to recover deferred revenue.

13. That the *pro forma* annual revenue increases for UGI Utilities Inc. – Gas Division be incorporated through increases to the Company's volumetric distribution charges for the affected classes based on the Company's filed usage billing determinants as reduced by 75 percent of the Company's growth-related billing determination adjustment set forth in the rebuttal testimony of Christopher R. Brown.

14. That UGI Utilities Inc. – Gas Division shall submit an update to Revised Exhibit A, Schedule C-2 to I&E, OCA, and OSBA no later than January 2, 2021, which update should include actual capital expenditures, plant additions, and retirements by month from

October 1, 2019 through September 30, 2020, and an additional update to Schedule C-2 for actual expenditures by month from October 1, 2020 through September 30, 2021 shall be filed no later than January 2, 2022.

15. That for the duration of the termination moratorium established by the PUC Emergency Order, UGI Utilities Inc. – Gas Division shall take the steps identified in Settlement Paragraphs III.E.27 and 28.

16. That if, after the Commission’s current termination moratorium expires or is otherwise terminated, the Commission issues a similar order reinstating a termination moratorium due to the COVID-19 pandemic, the Company will initiate discussions with the parties to the Settlement within thirty (30) days of such an order to discuss a possible extension of customer benefits provided through Section III.E.

17. That effective one (1) day after the issuance of the Commission’s Order approving the Settlement, the Company be permitted to implement a temporary program known as the Emergency Relief Program (ERP) to provide billing relief and/or payment relief for customers who need temporary relief measures during the pendency, and for a limited period following, the termination of the PUC Emergency Order period as defined in Section III.F..

18. That the ERP, as described in Section III.F, Paragraphs 30 through 37, be approved.

19. That the Company shall track the costs associated with providing the ERP for deferred recovery on a class-specific basis, including but not limited to implementation costs and direct bill credit amounts as described in Section III.F. The parties reserve the right to challenge how these costs are recovered in the next base rate proceeding.

20. That the Company’s proposed modifications to Tariff Rule 5 – Extension Regulation be approved as filed effective on the later of October 1, 2020, or on the first day after Commission approval. These modified extension provisions shall not be applied to

customers along existing GET Gas designated mains nor be permitted as a method to extend existing GET Gas mains where GET Gas surcharge payments remain in effect.

21. That the as-filed updated participant number of “25,297” be replaced with “the number of CAP enrollees as of September 30, 2020”.

22. That the Company shall continue to calculate its Rate NNS and Rate MBS charges using the existing method as approved in the Commission’s October 4, 2019 final order at Docket No. R-2018-3006814.

23. That the Company’s proposed language clarifications related to Tariff Rule 10 - Failure to Comply with an OFO or DFD be approved as-filed effective on the later of October 1, 2020, or on the first day after Commission approval.

24. That the Company’s additional tariff modifications, identified in the Settlement at Paragraph III.G.42 be approved effective on the later of October 1, 2020, or on the first day after Commission approval.

25. That UGI Utilities Inc. – Gas Division be permitted to file its Chapter 71 earnings reports on a consolidated basis, rather than by former rate district.

26. That the Company’s proposal to fully harmonize distribution rates for Rates N/NT and DS is withdrawn without prejudice. The Company may propose this in the Company’s next base rate case, but no sooner than January 1, 2022.

27. That, as of the effective date of the Commission’s Final Order in this case, UGI Utilities Inc. – Gas Division be eligible to include plant additions in the Distribution System Improvement Charge (DSIC) once the total net plant balances reach a level of \$2,875,056,000. This provision is included solely for purposes of calculating the DSIC and is not determinative for future ratemaking purposes of the projected additions to be included in rate base in an FPFTY filing.

28. That, for purposes of calculating its DSIC, UGI Utilities Inc. – Gas Division shall use the equity return rate for gas utilities contained in the Commission’s most recent Quarterly Report on the Earnings of Jurisdictional Utilities and shall update the equity return rate each quarter consistent with any changes to the equity return rate for gas utilities contained in the most recent Quarterly Earnings Report, consistent with 66 Pa. C.S. § 1357(b)(3), until such time as the DSIC is reset pursuant to the provisions of 66 Pa. C.S. § 1358(b)(1).

29. That the Company be permitted to track and record as a regulatory asset all COVID-19 Pandemic Costs and shall be permitted to claim COVID-19 Pandemic Costs as defined in Settlement Paragraph III.H.48 for ratemaking purposes in the Company’s next general rate proceeding over an amortization period of 10 years, without interest. COVID Pandemic Costs that cause the Company’s operating costs for the specific FERC account to exceed budgeted FTY and FPFTY levels shall be eligible for recovery for ratemaking purposes. All parties reserve the right to review the prudence and reasonableness of these costs in the next base rate proceeding.

30. That for the purposes of the Settlement and future proceedings, COVID-19 Pandemic Costs may include reasonable and prudently incurred, incremental labor-related costs; costs incurred to maintain employee and contractor availability; incremental health care related costs; incremental worker’s compensation costs; incremental occupational safety equipment, contractor, and personnel costs; annual uncollectible accounts expense in excess of \$12.81 million beginning with the fiscal year period ending September 30, 2020 and continuing for annual periods thereafter until the effective date of the Company’s next base rate filing; and ERP related costs discussed in Settlement Paragraph III.F.36. COVID-19 Pandemic Costs that cause the Company’s operating costs for the specific FERC account to exceed budgeted FTY and FPFTY levels or, in the case of uncollectible accounts expense, \$12.81 million, shall be eligible for recovery for ratemaking purposes.

31. That the Company shall maintain records, documents, and other information necessary to demonstrate that these costs qualify as COVID-19 Pandemic Costs.

32. That the Company shall provide a report as part of the Company's next base rate case detailing: (1) its efforts to maximize its utilization of and track any government benefits, whether direct grant, tax credits, or other, to minimize costs to be deferred; (2) any amounts obtained as part of these efforts and their intended use; and, (3) if denied, the reason for such denial.

33. That annual differences between \$4.188 million and actual expenditures for environmental costs be deferred as a regulatory asset where expenditures are greater than \$4.188 million per year or as a regulatory liability where expenditures are less than \$4.188 million on an annual basis and accumulated for book and ratemaking purposes until the Company's next base rate case, consistent with Settlement Paragraph III.I.51.

34. That the Commission approve the continued amortization of the \$8.103 million balance applicable to pre-fiscal 2019 environmental expenditures for book and ratemaking purposes at \$1.621 million per year, as adopted by the Commission's October 4, 2019 final order at Docket No. R-2018-3006814. The Company will amortize the \$1.219 million balance applicable to fiscal year 2019 over the five-year period beginning January 1, 2021 at \$243,800 per year.

35. That UGI Utilities Inc. – Gas Division's Accumulated Deferred Income Tax and pro-ratoning methodology as required by Treasury Regulation 1.167(l)-1(h)(6)(ii) be accepted. Further, the Company's method to amortize Excess Accumulated Deferred Federal Income Taxes (EDFIT) according to the Average Rate Assumption Method be accepted. Absent a change in federal or state law, regulation, judicial precedent or policy, the remaining unamortized EDFIT balance will continue as a reduction to rate base in all future proceedings until the full amount is returned to ratepayers.

36. That the Commission accept that for purposes of determining the revenue requirement in this case, all capitalized repairs deductions claimed on a tax return have been normalized for ratemaking purposes and the appropriate related amount of tax effect of those deductions has been reflected as Accumulated Deferred Income Taxes as a reduction to UGI Utilities Inc. – Gas Division's rate base.

37. That the Commission adopt the Company's as-filed depreciation rates, which are accepted for the Company's accounting purposes.

38. That the investigation at Docket No. R-2019-3015162 be terminated upon the filing of the approved tariffs.

39. That the formal Complaint filed by the Office of Consumer Advocate at Docket No. C-2020-3018289, be closed as satisfied.

40. That the formal Complaint filed by the Office of Small Business Advocate at Docket No. C-2020-3018858, be closed as satisfied.

41. That the formal Complaint filed by Calpine Energy Services, L.P. at Docket No. C-2020-3019101, be dismissed.

42. That the formal Complaint filed by Micah Cameron at Docket No. C-2020-3017207, be dismissed.

43. That the formal Complaint filed by David Torakeo at Docket No. C-2020-3019355, be dismissed.

44. That the formal Complaint filed by Sarah Hanle at Docket No. C-2020-3019824, be dismissed.

45. That the formal Complaint filed by Robert Zivny at Docket No. C-2020-3021512, be dismissed.

Date: August 29, 2020

Christopher P. Pell
Deputy Chief Administrative Law Judge