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August 27, 2010

BY HAND

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

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SECRETARY'S BUREAU

**RE: Pennsylvania Public Utility Commission, et al. v. UGI Utilities, Inc. - Gas Division
Docket Nos. R-2010-2172933, C-2010-2175547, C-2010-2181712, C-2010-2183642
and C-2010-2183540**

Dear Secretary Chiavetta:

Enclosed please find the original and three copies of the Revised Stipulation in Settlement of Section 1307(f) Rate Investigation for the above-referenced proceeding. In addition, as directed by the Order Modifying Procedural Schedule and Providing for Settlement Procedures dated July 28, 2010, enclosed is a disk containing searchable pdf versions of the Revised Stipulation and Exhibits.

Respectfully Submitted,

Michael W. Hassell

MWH/jl

Enclosures

cc: Honorable Kandace F. Melillo
Certificate of Service

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY	:	
COMMISSION,	:	Docket No. R-2010-2172933
OFFICE OF CONSUMER ADVOCATE,	:	Docket No. C-2010-2175547
OFFICE OF SMALL BUSINESS ADVOCATE,	:	Docket No. C-2010-2181712
Craig Karchner, and	:	Docket No. C-2010-2183642
Brian Yahner	:	Docket No. C-2010-2183540
	:	
Complainants and	:	
	:	
UGI INDUSTRIAL INTERVENORS	:	
AND SHIPLEY ENERGY, INC.,	:	
	:	
Intervenors	:	
v.	:	
UGI UTILITIES, INC. – GAS DIVISION	:	

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**REVISED STIPULATION IN SETTLEMENT OF
SECTION 1307(f) RATE INVESTIGATION**

TO THE HONORABLE KANDACE F. MELILLO, ADMINISTRATIVE LAW JUDGE:

I. INTRODUCTION

UGI Utilities, Inc. – Gas Division (“UGI”), the Office of Trial Staff (“OTS”) of the Pennsylvania Public Utility Commission (“Commission”), the Office of Consumer Advocate (“OCA”), the Office of Small Business Advocate (“OSBA”), Shipley Energy, Inc. (“Shipley”), Craig Karchner and Brian Yahner, parties in the above-captioned proceeding (hereinafter individually referred to as “Party” or collectively referred to as the “Parties”), hereby join in this

Stipulation In Settlement Of Section 1307(f) Rate Investigation (“Settlement”),¹ and hereby request that Administrative Law Judge Kandace F. Melillo (the “ALJ”) and the Commission:

(1) authorize UGI to file a tariff supplement for service rendered on or after December 1, 2010, that implements, subject to updates and tariff modifications traditionally performed on December 1, the rates set forth in Appendix A hereto; and

(2) make all associated findings required by Sections 1307(f) and 1318 of the Public Utility Code, 66 Pa. C.S. §§ 1307(f) and 1318.

The rates set forth in Appendix A reduces UGI’s June 1, 2010 PGC(1) rate of \$9.16/Mcf to \$8.35/Mcf, or a reduction of \$0.81/Mcf, and UGI’s average June 1, 2010 PGC(2) rate of \$6.41/Mcf to \$6.19/Mcf, or a reduction of \$0.22/Mcf.

Attached as Appendices B, C, D, E and F hereto are statements in support of the Settlement submitted by UGI, OTS, OCA, OSBA and Shipley. Attached as Appendix G is a letter from UGIII indicating that it neither supports nor opposes this Settlement.

II. BACKGROUND

In support of this Settlement, the Parties state as follows:

1. UGI is a natural gas distribution company with gross intrastate annual operating revenues in excess of \$40 million and is authorized by the provisions of Section 1307(f) of the Public Utility Code, and the Commission’s gas cost recovery regulations at 52 Pa. Code §§ 53.61 - 53.68, to make annual purchased gas cost (“PGC”) filings proposing gas rate modifications to reflect increases or decreases in its natural gas costs.

2. On April 30, 2010, UGI provided the Commission with the prefiling information required by 52 Pa. Code §§ 53.64(c) and 53.65.

¹ In addition, the UGI Industrial Intervenors (“UGIII”), the only other party in this proceeding, has indicated that it does not support or oppose the Settlement.

3. On June 1, 2010, in accordance with the schedule for Section 1307(f) filings established by the Commission, UGI submitted its 2010 PGC filing to the Commission, with proposed modifications to UGI's Gas Tariff Pa. P.U.C. Nos. 5 and 5S, to become effective December 1, 2010.

4. UGI's June 1, 2010 PGC filing proposed a PGC(1) rate of \$8.40/Mcf, effective December 1, 2010, and an average PGC(2) rate of \$6.23/Mcf, also effective December 1, 2010.

5. UGI also filed the direct written testimony of its supporting witnesses with its PGC filing.

6. On June 16, 2010, UGI also filed the Supplemental Direct testimony of J.P. Ghio, addressing actions UGI had decided to take, beyond its commitments made in its Commission-approved 2009 PGC settlement at Docket No. R-2009-2105911, to minimize the recovery of Rate GBM propane costs through PGC rates.

7. On or about May 12, 2010, the OCA filed a formal complaint and Public Statement, docketed at C-2010-2175547, which UGI answered on June 4, 2010.

8. On or about June 7, 2010, the OSBA filed a formal complaint and Public Statement, docketed at C-2010-2181712, which UGI answered on June 15, 2010.

9. On or about June 9, 2010, counsel for OTS filed a notice of appearance.

10. On or about June 17, 2010, UGIII petitioned to intervene.

11. On June 17, 2010 UGI was provided with notice of the formal complaint of Richard Adams, docketed at C-2010-2182016, which UGI answered on July 9, 2010.

12. On or about June 21, 2010, Shipley petitioned to intervene, which was subsequently granted by an order dated June 28, 2010.

13. On June 24, 2010, UGI was provided with notice of the formal complaints of Craig Karchner, docketed at C-2010-2183642, and Brian Yahner, docketed at C-2010-2183540, which UGI answered on July 7, 2010.

14. On June 17, 2010, a consolidated prehearing conference in the UGI, UGI Central Penn Gas, Inc. (“CPG”) and UGI Penn Natural Gas, Inc. (“PNG”) PGC proceedings was conducted before the ALJ.

15. At the prehearing conference, the CPG, UGI, and UGI PGC proceedings were procedurally consolidated for the limited purposes of hearing; UGIII’s motion to intervene was granted; a procedural schedule was adopted and certain discovery response rules were modified.

16. On July 7, 2010, UGI filed a motion to consolidate the formal complaints of Adams, Karchner and Yahner with the consolidated PGC proceedings.

17. Following a telephonic conference conducted on July 9, 2010, the presiding ALJ issued an Order, dated July 12, 2010, granting the motion to consolidate with respect to the Karchner and Yahner formal complaints on the grounds that these complaints were challenging the proposed Rate GBM PGC rate mechanism for transitioning certain Rate GBM customers to market-based propane rates, but denying the motion with respect to the Adams formal complaint since it did not clearly challenge the proposed Rate GBM PGC rate mechanism, and instead only requested an extension of natural gas service.

18. The July 12, 2010 Order also established procedural rules for addressing issues raised in the Karchner and Yahner complaints, including a requirement that UGI submit additional supplemental direct testimony.

19. In accordance with the procedural schedule established by the ALJ, the OCA, OSBA, OTS and Shipley filed written direct testimony on July 9, 2010, OCA, Shipley and UGI

filed rebuttal testimony on July 21, 2010, UGI filed Additional Supplemental Direct testimony on July 21, 2010, and OSBA filed Surrebuttal testimony on July 27, 2010.

20. Throughout this proceeding, all active parties explored the possibility of settlement in accordance with the Commission's Rules of Practice at 52 Pa. Code § 5.231.

21. On July 27, 2010, UGI notified the ALJ that the Parties had reached a settlement in principle of all issues in the proceeding other than those raised in the Karchner and Yahner formal complaints, and requested a partial suspension of the procedural schedule.

22. On July 28, 2010, UGI notified the ALJ that a settlement in principle of all issues in the Karchner and Yahner formal complaints had also been reached, and asked for a full suspension of the procedural schedule.

23. In an Order dated July 28, 2010, the ALJ suspended the procedural schedule, with the exception of retaining a July 29, 2010 hearing date for the purpose of placing testimony into the record by stipulation, and directed the parties to submit a fully executed settlement agreement "in-hand to the presiding officer by close of business (4:30 pm.) on Tuesday, August 17, 2010, in both an electronic version and hard copy, and filed with the Secretary's Bureau, along with a CD of all settlement documents in searchable pdf format."

24. A hearing was subsequently held on July 29, 2010, at which time all of the testimony and exhibits that had been filed in the proceeding, including UGI's April 30, 2010 pre-filing information and June 1, 2010 PGC filing, were admitted into the record by stipulation.

25. A fully executed Stipulation in Settlement was filed on August 17, 2010. However, on a telephonic conference call with the ALJ conducted on August 20, 2010, it was agreed that the Parties would seek to modify certain settlement terms, and if agreement was

reached, would strive to file a revised Stipulation in Settlement by no later than the morning on August 30, 2010.

III. GENERAL PROVISIONS OF SETTLEMENT

26. The Parties agree the rates for the recovery of the purchased gas costs of UGI should be revised, subject to updates, effective December 1, 2010, to reflect the rates set forth in Appendix A hereto.

27. Effective December 1, 2010, UGI shall discontinue its practice of purchasing swing gas supplies under contracts with first-of-month pricing provisions.

28. UGI will track gas losses associated with line hits and include a report of such losses in its next PGC proceedings.

29. In its compliance filing in this proceeding, UGI will revise its mandatory direct assignment rules applicable to licensed natural gas suppliers providing natural gas supply service to Rate RT – *General Service - Residential Transportation* and Rate NT – *General Service – Non-residential Transportation* customers (collectively “Choice Customers” or individually “Choice Customer”) under UGI Rate AG – *Aggregation Service* (collectively “Choice Suppliers” or individually “Choice Supplier”) to provide that, for the period December 1, 2010 through October 31, 2011, Choice Suppliers serving Choice Customers on the Company’s system on or before October 1, 2010 may elect, and Choice Suppliers serving Choice Customers on the Company’s system after October 1, 2010 must elect to receive a release of capacity in accordance with one of the following options; with such election to be made on or before October 15, 2010, except for any new Choice Suppliers to the Company’s system after October 1, 2010 who shall make an election for the remainder of the period no later than 30 days prior to commencing service on the Company’s system:

Option One – A release of interstate pipeline capacity at a price equal to the projected weighted average demand cost of all PGC capacity, storage and peaking assets. Such interstate pipeline capacity would be released monthly in an amount equivalent to the average projected Daily Delivery Requirement (“DDR”) during the peak winter month of January, assuming normal weather, (the January Normal Daily Delivery Requirement or “January NDDR”) of the Choice Customers projected to be served by the Choice Supplier during the month.

Option Two – A monthly release of interstate pipeline capacity in an amount equal to forty percent (40%) of the January NDDR of the Choice Customers served by the Choice Supplier during the month. The capacity would be released at a price equal to the projected weighted average demand cost of all PGC capacity, storage and peaking assets, divided by .40, so that the total costs of the released capacity is equal to the costs of released capacity under Option One. UGI would also make a bundled city gate sale of gas to the Choice Supplier in an amount equal to sixty (60%) of the forecasted monthly average DDR of the Choice Customers served by the Choice Supplier multiplied by the number of days in the month for each month during the months of November through March. The transaction would be a base load sale with a ratable quantity sold each day of the month. The bundled city gate sale would be priced at (1) the average published April through October INSIDE FERC First of Month Natural Gas monthly price for Columbia Gulf Mainline, plus (2) the variable transportation and storage charges associated with the delivery path shown on Exhibit 1 to this Settlement, including fuel and commodity costs for storage injection and withdrawals. Option Two shall be the default election for any Choice Supplier failing to make an election by the election due date.

Option Three - A release of interstate pipeline capacity at a price equal to the projected weighted average demand cost of all PGC capacity, storage and peaking assets. Such interstate pipeline capacity would be released monthly in an amount equivalent to the peak day projected Daily Delivery Requirement (“DDR”), assuming design cold, (the Peak Daily Delivery Requirement or “PDDR”) of the Choice Customers projected to be served by the Choice Supplier during the month.

Option Four – A release of interstate pipeline capacity in an amount equal to sixty-two percent (62%) of the PDDR of the Choice Customers served by the Choice Supplier during the month. The capacity would be released at a price equal to the projected weighted average demand cost of all PGC capacity, storage and peaking assets, divided by .62, so that the total costs of the released capacity is equal to the costs of released capacity under Option Three. UGI would also make a bundled city gate sale of gas to the Choice Supplier in an amount equal to thirty-eight percent (38%) of the DDR of the Choice Customers served by the Choice Supplier during the months of November through March. The bundled city gate sale would occur on a daily basis. The bundled city gate sale would be priced at (1) the average published April through October INSIDE FERC First of Month Natural Gas monthly price for Columbia Gulf Mainline, plus (2) the variable transportation and variable storage charges associated with the delivery path shown on Exhibit 1 of this Settlement, including fuel and commodity costs for storage injection and withdrawals.

30. In its compliance filing in this proceeding, UGI will revise its mandatory direct assignment rules applicable to Choice Suppliers to provide that for the period November 1, 2011 through October 31, 2012, Choice Suppliers must elect to receive an assignment of capacity in

accordance with one of the following options; with such election to be made on or before July 15, 2011, except for any new Choice Suppliers to the Company's system after July 15, 2011 shall make an election for the remainder of the period no later than 30 days prior to commencing service on the Company's system:

Option One – A release of interstate pipeline capacity at a price equal to the projected weighted average demand cost of all PGC capacity, storage and peaking assets. Such interstate pipeline capacity would be released monthly in an amount equivalent to the average projected Daily Delivery Requirement (“DDR”) during the peak winter month of January, assuming normal weather, (the January Normal Daily Delivery Requirement or “January NDDR”) of the Choice Customers projected to be served by the Choice Supplier during the month.

Option Two – A monthly release of interstate pipeline capacity in an amount equal to fifty percent (50%) of the January NDDR of the Choice Customers served by the Choice Supplier during the month. The capacity would be released at a price equal to the projected weighted average demand cost of all PGC capacity, storage and peaking assets, divided by .50, so that the total costs of the released capacity is equal to the costs of released capacity under Option One. UGI would also make a bundled city gate sale of gas to the Choice Supplier in an amount equal to fifty percent (50%) of the forecasted monthly average DDR of the Choice Customers served by the Choice Supplier multiplied by the number of days in the month for each month during the months of November through March. The transaction would be a base load sale with a ratable quantity sold each day of the month. The bundled city gate sale would be priced at (1) the average published April through October INSIDE FERC First of Month Natural Gas monthly

price for Columbia Gulf Mainline, plus (2) the variable transportation and variable storage charges associated with the delivery path shown on Exhibit 1 to this Settlement, including fuel and commodity costs for storage injection and withdrawals. Option Two shall be the default election for any Choice Supplier failing to make an election by the election due date.

Option Three - A release of interstate pipeline capacity at a price equal to the projected weighted average demand cost of all PGC capacity, storage and peaking assets. Such interstate pipeline capacity would be released monthly in an amount equivalent to the peak day projected Daily Delivery Requirement (“DDR”), assuming design cold, (the Peak Daily Delivery Requirement or “PDDR”) of the Choice Customers projected to be served by the Choice Supplier during the month.

Option Four – A release of interstate pipeline capacity in an amount equal to sixty-two percent (62%) of the PDDR of the Choice Customers served by the Choice Supplier during the month. The capacity would be released at a price equal to the projected weighted average demand cost of all PGC capacity, storage and peaking assets, divided by .62, so that the total costs of the released capacity is equal to the costs of released capacity under Option Three. UGI would also make a bundled city gate sale of gas to the Choice Supplier in an amount equal to thirty-eight percent (38%) of the DDR of the Choice Customers served by the Choice Supplier during the months of November through March. The bundled city gate sale would occur on a daily basis. The bundled city gate sale would be priced at (1) the average published April through October INSIDE FERC First of Month Natural Gas monthly price for Columbia Gulf Mainline, plus (2) the variable transportation and variable storage charges associated with the delivery path

shown on Exhibit 1 to this Settlement, including fuel and commodity costs for storage injection and withdrawals.

31. In its compliance filing in this proceeding, UGI will revise its proposed mandatory direct assignment rules to provide that for the annual period beginning November 1, 2012, and each 12-month period effective November 1 thereafter, subject to the Choice Capacity Assignment Review provisions, below, Choice Suppliers must elect to receive an assignment of capacity in accordance with one of the following options; with such election to be made on or before July 15, 2012, except any new Choice Suppliers to the Company's system after July 15, 2012, shall make an election for the remainder of the period no later than 30 days prior to commencing service on the Company's system:

Option One – A release of interstate pipeline capacity at a price equal to the projected weighted average demand cost of all PGC capacity, storage and peaking assets. Such interstate pipeline capacity would be released monthly in an amount equivalent to the peak day projected Daily Delivery Requirement (“DDR”), assuming design cold, (the Peak Daily Delivery Requirement or “PDDR”) of the Choice Customers projected to be served by the Choice Supplier during the month.

Option Two – A monthly release of interstate pipeline capacity in an amount equal to sixty-two percent (62%) of the PDDR of the Choice Customers served by the Choice Supplier during the month. The capacity would be released at a price equal to the projected weighted average demand cost of all PGC capacity, storage and peaking assets, divided by .62, so that the total costs of the released capacity is equal to the costs of released capacity under Option One. UGI would also make a bundled city gate sale of gas to the Choice Supplier in an amount equal to thirty-eight percent (38%) of the DDR of the

Choice Customers served by the Choice Supplier during the months of November through March. The bundled city gate sale would occur on a daily basis. The bundled city gate sale would be priced at (1) the average published April through October *INSIDE FERC* First of Month Natural Gas monthly price for Columbia Gulf Mainline, plus (2) the variable transportation and variable storage charges associated with the delivery path shown on Exhibit 1 to this Settlement, including fuel and commodity costs for storage injection and withdrawals. Option Two shall be the default election for any Choice Supplier failing to make an election by the election due date.

32. The Parties agree UGI will not be denied PGC cost recovery for any portion of its PGC supplies or sharing mechanism revenues because of its implementation of the direct assignment settlement terms set forth in paragraphs 28-30.

33. If, on or before October 31, 2013, the total design peak day Choice demand served by Choice Suppliers on the Company system drops to a level less than 90% of the highest total design peak day demand experienced in the previous three years, or the total number of Choice customers served by Choice Suppliers on the Company's system drops to a level less than 90% of the highest total customer account experienced in the previous three years, any Choice Supplier shall have the right to file a complaint to show why the Company's capacity assignment rules have resulted in the drop and to propose changes to be considered by all interested parties. Monthly, UGI shall post total Choice peak day demand levels and Choice Customer numbers on its supplier website for purposes of allowing any interested party to monitor such peak day demand levels.

34. UGI will track and report on its Lost-and-Unaccounted-For Gas (“LUFG”) initiatives and results in its 2011 PGC filing, and will provide a schedule in its compliance filing showing how it calculated its retainage rate using a three-year rolling average.

35. UGI will exclude volumes associated with service to its Rate XD transportation customers receiving retainage discounts in calculating its retainage rate in its compliance filing in this proceeding.

36. UGI will use its best efforts, consistent with its statutory least cost fuel procurement obligations, to acquire Marcellus Shale supplies, and will provide a report in its next PGC filing addressing (a) its efforts to purchase Marcellus Shale supplies, (b) the volumes, if any, purchased, (c) to the extent determinable, the percentage of its total supplies provided by Marcellus Shale gas and (d) barriers, if any, to such purchases.

37. Consistent with UGI’s representations in paragraph 15 and footnote five of its petition at Docket No. P-2009-2149107, UGI will continue to refund the appropriate portions of the Tennessee Gas Pipeline Company Environmental Surcharge refunds to transportation customers as they are received in accordance with existing policy.

38. The Parties, other than the OCA, which neither joins nor opposes paragraphs 38-42 of the Settlement, agree to support the issuance of a certificate of public convenience in a separate proceeding, authorizing UGI to abandon service to the service addresses of Craig Karchner and Brian Yahner upon the installation of geothermal heat pumps at their service addresses, at UGI’s cost, in accordance with the terms of this Settlement.

39. UGI will work with Mr. Karchner and Mr. Yahner to obtain quotes from three contractors, with at least one contractor identified by UGI, for the installation of the geothermal heat pumps meeting, at a minimum, the geothermal heat pump standards set forth in a July 21,

2010 quote from Plum-Air, Inc. provided by Mr. Karchner and Mr. Yahner to UGI, excluding that portion of the quote related to the installation of a water heater.

40. The contract for the installation of the geothermal heat pumps shall be awarded to the lowest bidder, UGI shall pay all required payments directly to the winning contractor with no “up front”, deposit or other payment obligation on the part of Mr. Karchner or Mr. Yahner, and UGI shall pay for excavation and the restoration of any property dug-up or disturbed by the installation process.

41. UGI shall not be obligated to commence the installation of the geothermal heat pumps until a certificate of public convenience is issued authorizing the abandonment of service to the service addresses of Mr. Karchner and Mr. Yahner upon the installation of the geothermal heat pumps at these service addresses, but will otherwise strive to obtain the certificate of public convenience to abandon service and to complete the installations by November 1, 2010 or as soon thereafter as is practical. UGI agrees to make every effort to expedite the filing, publishing notice of, and processing of the petition to abandon service so as to obtain the certificate as quickly as possible.

42. The Parties agree that the Karchner and Yahner formal complaints at docket numbers C-2010-2183642 and C-2010-2183540 will be dismissed as part of this Settlement. Furthermore, the Parties respectfully request that the presiding ALJ and the Commission specify that such dismissal will be without prejudice to the rights of Mr. Karchner and Mr. Yahner to re-file their formal complaints in the event UGI is not granted a certificate of public convenience to abandon service to their accounts, and in the event such formal complaints are re-filed UGI agrees that it shall carry the burden of proof.

IV. STANDARDS AND FINDINGS

43. This proceeding involves two reviews the Commission is required to undertake pursuant to Sections 1307 and 1318 of the Public Utility Code. Under Section 1307(f), the Commission, after hearing, must determine what portion of the gas costs UGI may recover for a previous 12-month period under the standards set forth in Section 1318. In addition, because UGI has filed tariffs proposing new PGC rates, the Commission must determine whether the specific findings of Section 1318 can be made. This is a requirement that must precede Commission approval of the Company's proposed rates. The historic period reviewed in this proceeding is the twelve-month reconciliation period ending March 31, 2010. The new tariff rates are intended to become effective December 1, 2010.

A. Historic Reconciliation Period Standards

44. With respect to UGI's gas purchases and gas purchasing practices during the twelve-month historic reconciliation period ending March 31, 2010, all Parties agree, and request the Commission to find, that UGI has met the standards set forth in Section 1318 of the Public Utility Code, as required by Section 1307(f)(5) of the Public Utility Code, as to all historic period purchased gas costs. All Parties request that the Commission find, pursuant to Section 1307(f)(5) of the Public Utility Code, and based upon the evidence presented by the parties in this case, that, during the twelve-month period ended March 31, 2010, UGI has met the requirements of Section 1318 of the Public Utility Code by pursuing a least-cost fuel procurement policy, consistent with its obligation to provide safe, adequate and reliable service to its customers. Information submitted by UGI in support of the required statutory findings can be found in the following sections of the UGI Exhibit 1:

- A. FERC Participation (§1317(a)(1); §1318(a)(1)): Prefiling, Section 3.
- B. Supplier Negotiations/Renegotiations (§1317(a)(2); §1318(a)(2)): Prefiling, Sections 2 and 5.

- C. Efforts to Obtain Lower Cost Supplies (§1317(a)(3); §1318(a)(3)): Prefiling, Sections 1, 2, and 5.
- D. Withheld Supplies (§1317(a)(4); §1318(a)(4)): Prefiling, Section 5.
- E. Non-Affiliated Purchases (§1317(b); §1318(b)): Prefiling, Section 13.
- F. Least Cost Fuel Procurement Policy (§1317(a); §1318(a)): Prefiling, Section 1, 2 and 5.
- G. Calculation of 2010 PGC Rates:
 - 1. June 1, 2010 Filing, Attachments (1) - (4).
 - 2. June 1, 2010 Filing, "E" Factor Calculations: Filing, Attachment (4).
 - 3. June 1, 2010 Filing, Written Direct Testimony of William J. McAllister.
- H. Reliability (§1317(c)): Prefiling, Section 14.

B. Projected Period Findings

45. With respect to the twelve-month period beginning December 1, 2010, which is the period of time during which the proposed rates contained in this Settlement would be in effect, all Parties agree and request the Commission to find that UGI has satisfied each of the standards for a least cost procurement policy set forth in Section 1318 of the Public Utility Code, including the standards set forth in Sections 1318(a)(1), 1318(a)(2), 1318(a)(3), 1318(a)(4), 1318(b)(1), 1318(b)(2) and 1318(b)(3), based upon the evidence of record in this proceeding concerning its purchasing policies. Nevertheless, it is expressly understood and agreed that such findings, relating to the rates to become effective December 1, 2010, are made solely for the purpose of setting prospective rates, and shall be subject to further review in an appropriate future proceeding. This Section of the Settlement, Section IV.B., is not intended to limit or prevent any party from challenging projected gas purchases that actually have been made,

including those made during the interim period of April 1, 2010 through November 30, 2010, and future gas purchasing practices that have been implemented, or from reviewing whether these gas purchases and gas purchasing practices have, in fact, complied with the standards of Section 1318, except as provided in Section III above.

46. If, in an appropriate future proceeding, gas purchases and gas purchasing practices relating to the period December 1, 2009 through November 30, 2010 are challenged, the Commission's findings made pursuant to Section IV.B. of this Settlement shall pose no bar to the examination of such purchases and practices including, but not limited to, disallowance of, or reductions to, such costs during the one-year period commencing December 1, 2009, except as provided in Section III above.

47. The Parties also agree that future examination of the gas costs relating to the period April 1, 2009, through November 30, 2010, to determine whether UGI's experienced and projected gas purchases and gas purchasing practices complied with the standards set forth in Section 1318 of the Public Utility Code, 66 Pa. C.S. § 1318, shall be permitted, and that the Commission's adoption of the findings under Section IV.B. of this Settlement shall not be construed to limit or prevent any disallowance or reduction of such costs, except as provided in Section III above.

V. CONDITIONS OF SETTLEMENT

48. This Settlement is conditioned upon the Commission's approval of the terms and conditions contained herein without modification, addition or deletion. If the Commission modifies the Settlement or fails to approve, by December 1, 2010, the terms and conditions of this Settlement and the rates contained in Appendix A, as modified to reflect updates and tariff modifications traditionally performed on December 1 effective for service rendered on and after

December 1, 2010, then any of the Parties may elect to withdraw from this Settlement and may proceed with litigation. In such event, this Settlement shall be void and of no effect. Such election to withdraw must be made in writing, filed with the Secretary of the Commission and served upon all Parties within five (5) business days after the entry of an order modifying or disapproving the Settlement.

49. If the Commission modifies or does not approve the Settlement and the proceedings continue to hearings on the issues that are the subjects of this Settlement, the Parties reserve their respective rights to present additional testimony and to conduct full cross-examination, briefing and argument on these subjects.

50. This Settlement is proposed by the Parties to settle all issues in the instant proceeding and is made without any admission against, or prejudice to, any position that any Party may adopt during any subsequent litigation of this proceeding if the Commission disapproves or modifies this Settlement or in any other proceeding.

51. It is understood and agreed among the Parties that this Settlement is the result of compromises by all Parties, and does not necessarily represent the position(s) that would be advanced by any party in the event this proceeding were to be litigated fully.

52. This Settlement is being presented only in the context of this Section 1307(f) proceeding in an effort to resolve certain outstanding issues in a manner that is fair and reasonable. The Settlement reflects compromises on all sides, and is presented without prejudice to any position any of the parties may have advanced and without prejudice to the positions any of the parties may advance in the future on the merits of the issues.

53. The Parties acknowledge and agree that this Settlement shall have the same force and effect as if the Parties had fully litigated this proceeding with regard to the historic period ended March 31, 2010.

54. Except as provided above, all Parties agree to fully support the terms and conditions of the Settlement during further litigation in this proceeding.

55. This Settlement may be executed in counterparts.

WHEREFORE, the Parties, by their respective counsel, respectfully request as follows:

1. That Administrative Law Judge Kandace F. Melillo and the Commission approve this Settlement, including all terms and conditions thereof.

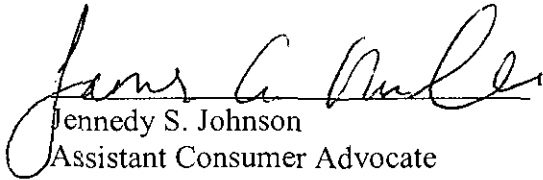
2. That the Commission enter a final order consistent with this Settlement which: (a) finds that there is sufficient evidence in the record for this Commission to make the findings referenced in Sections IV.A and IV.B of this Settlement; and (b) sets forth the findings referenced in Section IV.A and IV.B of this Settlement.

3. That the Commission enter a final order, consistent with this Settlement, (a) approving the proposed rates contained in Appendix A hereto, as modified to reflect updates and tariff modifications traditionally performed as part of UGI's December 1 PGC compliance filings, and (b) directing UGI to file a final tariff implementing such rates for gas service rendered by UGI on and after December 1, 2010.

4. That the Commission terminate and mark closed its inquiry and investigation at Docket Nos. R-2010-2172933, C-2010-2175547, C-2010-2181712, C-2010-2183642 and C-2010-

2183540.

Respectfully submitted,

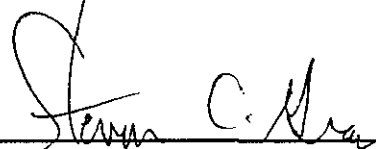


Jennedy S. Johnson
Assistant Consumer Advocate
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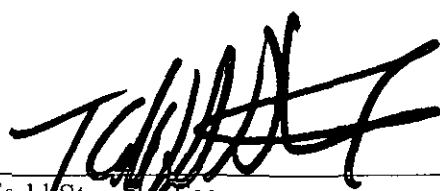


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200 West Broad Street
Hazleton, PA 18201

Counsel for Craig Karchner and
Brian Yahner

Dated: August 27, 2010

2183540.

Respectfully submitted,



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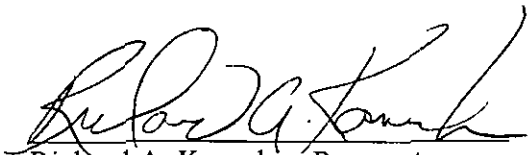
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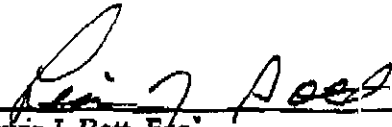
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Dated: August 27, 2010



Lewis J. Bott, Esq.
 200 West Broad Street
 Hazleton, PA 18201

Counsel for Craig Karchner and
Brian Yahner

APPENDIX A

(UGI Settlement Rates – Subject to Updates)

=

UGI Utilities, Inc. - Gas Division
Computation of the Cost of Gas
Applicable to Rates: R, GL, N.

Effective December 1, 2010
Computation Year Ending November 30, 2011

C1 - Projected Cost	\$	281,820,440
SETTLEMENT Adjustment (Swing Service)	\$	(1,294,473)
Adjustment for cost reductions due to GBM conversions*	\$	(266,564)
SETTLEMENT PROJECTED COST :	\$	280,259,403
S1 - Projected Sales (Mcf)**		33,264,967
C1 / S1 Projected Cost per Mcf	\$	8.4250
IRC - Interruptible Revenue Credit	\$	(0.2342)
E1 - Experienced Cost Rate R	\$	(5,409,896)
E1 - Experienced Cost Rates N	\$	(5,355,143)
E1 / S1 Experienced Cost per dth Rate R***	\$	0.1621
E1 / S1 Experienced Cost per dth Rates N (or Gas Cost Adjustment (GCA))	\$	0.1578
PGC1 = (GSC1 + GCA1) @ 12.1.2010 - Proposed Rate R	\$	8.3530
PGC1 = (GSC1 + GCA1) @ 12.1.2010 - Proposed Rates N	\$	8.3486
PGC1 = (GSC1 + GCA1) @ 6.1.2010 - Current:	\$	9.1580
<u>PGC1 Change Rate R</u>	\$	<u>(0.8050)</u>
<u>PGC1 Change Rate N</u>	\$	<u>(0.8094)</u>

Percent Residential Heating Change **-6.1%**

* Cost reductions related to the planned conversion of approximately 530 GBM customers during the period 12/1/10 through 11/30/11

** Includes additional volumes of natural gas due to planned GBM conversions

*** Please see June 1, Book 2 Schedule C, Page 1 for the development of this rate.

**** Excludes Rate GBM Cost and Sales. Please see Schedule A, Page 3 for the development of the Gas Beyond the Main PGC Rate.

UGI Utilities, Inc. - Gas Division
Computation of the Cost of Gas
Applicable to Rates: BD and CIAC.

Effective December 1, 2010
Computation Year Ending November 30, 2011

C2 - Projected Cost	\$	859,711
SETTLEMENT Adjustment (Swing Service)	\$	(4,629)
Adjustment for cost reductions due to GBM conversions*	\$	(953)
SETTLEMENT PROJECTED COST :	\$	854,129
S2 - Projected Sales (Mcf)		118,953
C2 / S2 Projected Cost per Mcf	\$	7.1800
IRC - Interruptible Revenue Credit	\$	(0.2342)
E2 - Experienced Cost Rate	\$	90,374
E2 / S2 Experienced Cost per Mcf ** (or Gas Cost Adjustment (GCA))	\$	(0.7597)
PGC2 = (GSC2 + GCA2) @ 12.1.2010	\$	6.1861
PGC2 = (GSC2 + GCA2) @ 6.1.2010 - Current:	\$	6.4125
<u>PGC2 Change</u>	\$	<u>(0.2264)</u>

* Cost reductions related to the planned conversion of approximately 530 GBM customers during the period 12/1/10 through 11/30/11.

** Please see June 1, Book 2 Schedule C, Page 1 for the development of this rate.

**UGI Utilities, Inc. - Gas Division
Computation of the Cost of Gas
Applicable to Rates: GBM**

Effective December 1, 2010
Computation Year Ending November 30, 2011

C(GBM) - Projected Cost	\$	1,110,754
SETTLEMENT Adjustment (Swing Service)	\$	(3,940)
Adjustment for cost reductions due to GBM conversions*	\$	(811)
SETTLEMENT PROJECTED COST :	\$	1,106,003
S(GBM) - Projected Sales (Mcf)**		101,242
C(GBM) / S(GBM) Projected Cost per Mcf	\$	10.9240
IRC - Interruptible Revenue Credit	\$	(0.2342)
E(GBM) / S(GBM) Experienced Cost per Mcf *** (or Gas Cost Adjustment (GCA))	\$	0.1621
$\bar{-}$ PGC(GBM) = (GSC(GBM) + GCA2) @ 12.1.2010	\$	10.8520
PGC(GBM) = (GSC(GBM) + GCA2) @ 6.1.2010 - Current:	\$	9.1580
<u>PGC Change</u>	\$	<u>1.6940</u>

12.7%

* Cost reductions related to the planned conversion of approximately 530 GBM customers during the period 12/1/10 through 11/30/11.

** Includes decrease in propane volumes due to planned GBM conversions

*** Please see June 1, Book 2 Schedule C, Page 1 for the development of this rate.

APPENDIX B

(UGI Statement in Support)

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY	:	
COMMISSION,	:	Docket No. R-2010-2172933
OFFICE OF CONSUMER ADVOCATE,	:	Docket No. C-2010-2175547
OFFICE OF SMALL BUSINESS ADVOCATE,	:	Docket No. C-2010-2181712
Craig Karchner, and	:	Docket No. C-2010-2183642
Brian Yahner	:	Docket No. C-2010-2183540
	:	
Complainants and	:	
	:	
UGI INDUSTRIAL INTERVENORS	:	
AND SHIPLEY ENERGY, INC.,	:	
	:	
Intervenors	:	
	:	
v.	:	
	:	
UGI UTILITIES, INC. – GAS DIVISION	:	

**UGI UTILITIES, INC. – GAS DIVISION’S STATEMENT
IN SUPPORT OF STIPULATION IN SETTLEMENT OF
SECTION 1307(f) RATE INVESTIGATION**

TO THE HONORABLE KANDACE F. MELILLO, ADMINISTRATIVE LAW
JUDGE:

I. INTRODUCTION

UGI Utilities, Inc. – Gas Division (“UGI” or the “Company”) hereby submits this Statement in Support of the Stipulation in Settlement of Section 1307(f) Rate Investigation (“Settlement”) entered into by UGI, the Office of Trial Staff (“OTS”) of the Pennsylvania Public Utility Commission (“Commission”), the Office of Consumer Advocate (“OCA”), the Office of Small Business Advocate (“OSBA”), Shipley Energy, Inc. (“Shipley”), Craig Karchner and Brian Yahner, parties in the above-captioned

proceeding (hereafter referred to as “Joint Petitioners”).¹ The Settlement has been entered into or not opposed by all parties and resolves all issues in this proceeding. UGI believes that this Settlement is in the best interests of UGI, its customers and the Joint Petitioners, and therefore is in the public interest and should be approved.

The Settlement of this proceeding was achieved only after a comprehensive investigation of UGI’s gas procurement practices. UGI responded to approximately 170 formal discovery requests, many of which had multiple subparts. Parties also filed multiple rounds of testimony, including UGI’s direct, supplemental direct and additional supplemental direct testimony; OTS, OCA, OSBA and Shipley direct testimony; UGI, OCA and Shipley rebuttal testimony; and OSBA surrebuttal testimony. In addition, the Joint Petitioners participated in numerous settlement discussions which ultimately led to the Settlement.

The Settlement reflects a carefully balanced compromise of the interests of all the Joint Petitioners in this proceeding. For the reasons set forth below, the Settlement is just and reasonable and should be approved.

II. SETTLEMENT TERMS

A. Swing Contracts

In its direct testimony the OCA recommended that UGI discontinue its practice of purchasing swing gas supplies under contracts with first-of-month pricing provisions, asserting the benefit of the price protection afforded by such contracts did not outweigh their incremental costs. OCA Statement No. 1, pp. 7-11. In its rebuttal testimony, UGI argued the swing contracts provide UGI PGC customers with protections against intra-

¹ In addition, the UGI Industrial Intervenors (“UGIII”), the only other party to this proceeding, has indicated that it does not support or oppose the Settlement.

month price spikes, have operational benefits and projected the swing contract price protection would only cost the PGC about \$344,224 for the PGC year ending November 30, 2010, after benefits were netted against costs. UGI Statement No. 2-R, pp. 1-5.

Under the Settlement UGI has agreed to discontinue its practice of purchasing swing gas supplies under contracts with first-of-month pricing provisions effective December 1, 2010. Settlement ¶ 26. This is a fair resolution of this issue and is in the public interest since it will provide UGI with sufficient advance notice to discontinue its swing purchases and permit its existing swing contracts to run their course. It also resolves the question of whether UGI should seek to mitigate intra-month price volatility through the use of swing contracts for the PGC year beginning December 1, 2010 and future PGC years.

B. Gas Losses Associated with Line Hits

In its direct testimony, the OCA reviewed the Commission's investigation at Docket No. M-2010-2037411, a case where it was alleged UGI did not properly mark its facility resulting in a line hit, and noted that in a motion at that docket Chairman Cawley requested that the appropriateness of cost recovery for natural gas losses resulting from line hits where UGI is at fault be investigated in UGI's next PGC proceeding. OCA Statement No. 1, p. 13, lines 10-16. The OCA noted that the total costs of gas losses associated with line hits where UGI was at fault during the three-year period of 2007-2009 are estimated to be approximately \$850, and recommended that no adjustment be made at this time for such minor gas losses. *Id.* p. 13, lines 22-25; p. 14, lines 3-6.

The Settlement provides that UGI will track gas losses associated with such line hits and include a report of such losses in its next PGC proceedings. This Settlement

term is acceptable to UGI and in the public interest in that it will provide additional information of potential interest to the public parties and the Commission.

C. Direct Assignment to Choice Suppliers

In its PGC filing UGI proposed to revise its mandatory direct assignment rules applicable to licensed natural gas suppliers providing natural gas supply service to Rate RT – *General Service - Residential Transportation*, Rate NT – *General Service – Non-residential Transportation* and Rate CT – *General Service – Commercial and Industrial Air Conditioning – Transportation* customers (collectively “Choice Customers” or individually “Choice Customer”) under UGI Rate AG – *Aggregation Service* (collectively “Choice Suppliers” or individually “Choice Supplier”), for the PGC year beginning December 1, 2010. UGI Statement No. 3, pp. 2-11. Specifically, UGI proposed that each Choice Supplier be required to elect one of two options: (1) a monthly release of pipeline capacity in an amount equivalent to the average projected delivery obligation of the Choice Supplier during the month of January assuming normal weather (the January Normal Daily Delivery Requirement or “January NDDR”) or (2) a release of pipeline capacity equal to sixty-two percent (62%) of the January NDDR, combined with bundled baseload city gate sales of gas, sold ratable each day of the month during the months of November, 2010 through March, 2011, at prices reflecting the average published INSIDE FERC First of Month Natural Gas monthly price for Columbia Gulf Mainline over the months of April through October, 2010, plus variable transportation and storage charges associated with a specified delivery path. *Id.* p. 6, line 21 – p. 7, line 14. The second option was designed to provide Choice Suppliers with the benefit of potential seasonal differences in the price of gas, while avoiding the potential reliability concerns associated with transfers of storage inventories that would be required with

releases of storage capacity. Id. p. 5, lines 13-19. The capacity releases would be at a price equal to the projected weighted average demand cost of all transportation, storage and peaking assets held to serve core market customers (PGC customers and Choice customers for which UGI has a supplier of last resort obligation), thereby avoiding the potential shifting of costs between PGC customers and Choice Suppliers. Id. p.5, line 23 – p. 6, line 2; p. 7, lines 1-4.

In its direct testimony the OCA concluded UGI’s “transitional approach in this proceeding appears reasonable[,]” but argued that in next year’s PGC proceeding UGI should move to mandatory direct assignment sufficient to meet the peak, and not just the January average, needs of each Choice Supplier’s Choice customers. OCA Statement No. 1, pp. 5-6.

In its direct testimony, Shipley argues UGI should include storage in the assets it releases, that the releases to Choice Suppliers should be voluntary and that the program should be implemented on a pilot basis for the first year. Shipley Statement No. 1, p. 7, lines 19-24.

In its rebuttal testimony UGI noted, amongst other things, (1) Shipley’s proposal to make the direct assignment program optional would result in the shifting of costs to PGC customers, (2) UGI’s proposed option two provided Choice Suppliers with the potential seasonal benefit of gas costs by pricing city gate sales associated with that option at summer index prices, (3) not all of UGI’s storage capacity is releasable, (4) that FERC and applicable bankruptcy laws provide no assurance that storage inventories would be present or available in the event UGI were to recall released storage capacity and (5) the release of capacity at the weighted average costs of all PGC assets was

appropriate to avoid the shifting of costs among PGC and Choice customers. UGI Statement No. 3-R, pp. 1-8.

In its rebuttal testimony the OCA asserted, amongst other things, that Shipley's proposal to make the assignment program voluntary would lead to inappropriate cost shifts to PGC customers. OCA Statement No. 1-R, p. 2.

Shipley, in its rebuttal testimony, challenged whether the release of capacity a weighted average costs was appropriate since Shipley would not receive storage assets, Shipley Statement No. 2, p. 3; that the proposed Option One would increase Shipley's current supply costs; *id.* p. 4-5; that the proposed Option Two would probably reduce Shipley's supply costs, *id.* p. 5; and that a move to direct assignment based on peak day rather than average day requirements would make Option Two "unattractive compared to Shipley's existing business practices." *Id.* p. 5, line 17.

The Settlement fairly resolves the issue of the appropriate means of phasing in direct assignment by (1), for the period of December 1, 2010 through October 30, 2011, (a) adopting UGI's proposed Option One, (b) adopting but revising UGI's proposed Option Two to reduce the pipeline capacity release portion to forty percent (40%) of a Choice Supplier's January NDDR with an associated increase in the bundled city gate sales at summer index prices, and (c) adding two additional direct assignment options that would be based on peak day, rather than January NDDR, requirements; (2), for the period of November 1, 2011 through October 31, 2012, providing Choice Suppliers with the same four options except that under Option Two the portion of released pipeline capacity would be increased to fifty percent (50%) with an associated reduction in the amount of bundled city gate sales at summer index prices; and (3) providing Choice

Suppliers for the twelve month period commencing November 1, 2012 and each twelve month period thereafter, with the options of a release of pipeline capacity based on the peak day requirements of a Choice Supplier's Choice customers or a release of capacity equal to sixty-two percent (62%) of such peak day requirements coupled with bundled city gate sales equal to thirty-eight percent (38%) of the peak day requirements of the Choice Customers served by the Choice Supplier during the months of November through March priced at the average of a published index price during the months of April through October plus variable transportation and storage costs associated with a *specified delivery path*.

The Settlement also establishes certain conditions, based on objective parameters, which would have to be met before changes to the mandatory direct rules could be proposed, and requires UGI to post associated information about these parameters on its website. Settlement ¶ 32.

These Settlement terms are reasonable and in the public interest because they provide for a reasonable transition period for Choice Suppliers to adjust their supply portfolios and retail service offerings to reflect an ultimate transition to mandatory direct assignments based on peak day requirements, thereby eliminating potential cost shifts, while also offering the option of releases or releases coupled with bundled city gate sales for the first two years of the transition period for those Choice Suppliers that might find mandatory direct assignment options based on peak day requirements to be beneficial.

The Settlement also provides that UGI "will not be denied PGC cost recovery for any portion of its PGC supplies or sharing mechanism revenues because of its implementation of the direct assignment settlement terms set forth in paragraphs 28-30."

Settlement ¶31. This Settlement provision is in the public interest because it provides important cost recovery protections for UGI.

D. Lost-and-Unaccounted-For-Gas

In its direct testimony, the OTS noted “the UFG plus Company Use gas for the twelve months ending September 2007 was 0.67%, the UFG for the twelve months ending September 2008 was 0.46%, and the UFG for the twelve months ending September 2009 was 0.51%. The three year average is 0.55% . . . [and t]he three year average of 0.55% is below the level of most other Pennsylvania gas companies..” OTS Statement No. 1, p.5, line 1-10. The OSBA also asserted in its direct testimony that UGI had failed to “provide a quantitative assessment as to why UFG rates have worsened.” OSBA Statement No. 1, p. 3, line13.

In its rebuttal testimony, UGI provided additional historical information concerning its LUAF rate and noted “will vary naturally as a function of reasonable variations in calculation variables such as: metering tolerances, estimating methodologies, differences in theft rates, gas heat rate values, changes in the calculation methodology, etc. [,]” and noted that the minor variations in UGI’s three-year rolling LUAF average would be well within a control limit of three times the Standard Deviation for the period. UGI Statement No. 3-R, p. 12.

In its surrebuttal testimony, the OSBA contended that on advice of counsel this explanation was insufficient, but concluded that no disallowance of gas costs was appropriate. OSBA Statement No. 2, p. 2-3.

Under the Settlement, UGI has agreed it will track and report on its LUFG initiatives and results in its 2011 PGC filing. Settlement ¶ 33. This Settlement provision

is reasonable and in the public interest since it will provide future PGC participants with additional information to evaluate UGI's efforts in controlling LAUG levels.

E. Retainage

The OSBA proposed in its direct testimony that UGI exclude both the throughput volumes and the retainage associated with any transportation customers with flex retainage rates. OSBA Statement No. 1 (Proprietary), pp. 3-7. In its rebuttal testimony UGI agreed this modification was appropriate. UGI Statement No. 1-R, p. 1.

Consistent with the terms of its 2009 PGC settlement, UGI began calculating its retainage rates beginning December 1, 2009 using a three-year rolling average. UGI Statement No. 1, p. 14. The OTS noted in its direct testimony that UGI agreed to provide a schedule in its compliance filing in this proceeding showing how it calculated its retainage rate using the three-year rolling average. OTS Statement No. 1, pp. 7-8.

The Settlement provides, in part, "will provide a schedule in its compliance filing showing how it calculated its retainage rate using a three-year rolling average[.]" Settlement

¶ 33, and "UGI will exclude volumes associated with service to its Rate XD transportation customers receiving retainage discounts in calculating its retainage rate in its compliance filing in this proceeding." Settlement ¶ 34.

These Settlement terms are in the public interest since the exclusion of volumes associated with Rate XD customers receiving retainage discounts will lead to the more accurate recovery of retainage costs from transportation customers, and the provision of an additional schedule with UGI's compliance filing showing its calculation of retainage rates using a three-year rolling average will provide additional information to permit public parties to better check UGI's calculations.

F. Marcellus Shale

In its direct testimony, the OTS asserted “use its best efforts to supply the PGC customers with the cheapest gas possible. If that gas is Marcellus Shale gas, the Company should maximize its purchase of Marcellus Shale gas.” OTS Statement No. 1, p. 3.

Under the Settlement UGI has agreed to “use its best efforts, consistent with its statutory least cost fuel procurement obligations, to acquire Marcellus Shale supplies, and will provide a report in its next PGC filing addressing (a) its efforts to purchase Marcellus Shale supplies, (b) the volumes, if any, purchased, (c) to the extent determinable, the percentage of its total supplies provided by Marcellus Shale gas and (d) barriers, if any, to such purchases.” Settlement ¶35.

This commitment to use best efforts and to provide additional information in its next PGC is in the public interest since it is consistent with UGI’s statutory least cost fuel procurement obligations, and will provide additional information to participants in next year’s PGC proceeding to help participants evaluate UGI’s efforts to acquire Marcellus Shale supplies.

G. Tennessee Pipeline Refunds

In a petition at Docket No. P-2009-2149107, Order entered February 1, 2010, UGI sought and obtained permission to divert the residential portion of a certain Tennessee Gas Pipeline Company Environmental Surcharge refunds to its Operation Share Energy Fund. UGI Statement No. 1, pp. 16-17. While UGI’s direct testimony in this proceeding specifically addressed the division of these refunds among residential and non-residential PGC customers, it did not explicitly confirm that it would continue to refund appropriate amounts to transportation customers. The Settlement accordingly

provides “[c]onsistent with UGI’s representations in paragraph 15 and footnote five of its petition at Docket No. P-2009-2149107, UGI will continue to refund the appropriate portions of the Tennessee Gas Pipeline Company Environmental Surcharge refunds to transportation customers as they are received in accordance with existing policy.” UGI Settlement ¶36.

This portion of the Settlement is in the public interest in that it provides additional assurance and clarity to UGI transportation customers.

H. Karchner and Yahner Formal Complaints

Craig Karchner and Brian Yahner are UGI Rate GBM customers that would be affected by the Rate GBM PGC rate transition mechanism proposed by UGI in this proceeding. See UGI Statement No. 1, pp. 16-17; UGI Statement No. 3-Supplemental, p. 3; UGI Statement No. 3-Additional Supplemental, pp. 2-4; UGI Exhibit No. 1, Book 2, Tariff Addendum No. 5, “rate GBM – Gas Beyond the Mains.”

In the Settlement the Joint Petitioners have “agree to support the issuance of a certificate of public convenience in this proceeding authorizing UGI to abandon service to the service addresses of Craig Karchner and Brian Yahner upon the installation of geothermal heat pumps at their service addresses, at UGI’s cost, in accordance with the terms of this Settlement.” Settlement ¶37. Other Settlement terms address details as to how the installation will be performed. Settlement ¶38-40.

This Settlement terms are in the public interest in that they satisfy the desire of Mr. Karchner and Mr. Yahner to move to a different energy source rather than experience the transition to market-based propane rates, will reduce the need to recover certain propane costs through PGC rates that would have been experienced if they remained on

Rate GBM service and satisfy challenges to a rate mechanism that was approved by the Commission in UGI's 2009 PGC proceeding.

III. ALJ QUESTIONS

At the July 29, 2010, hearing in this proceeding, the presiding Administrative Law Judge requested that certain additional information be provided with the settlement documents in this proceeding. This information is provided in the attached affidavit of J.P. Ghio.

IV. CONCLUSION

As explained above, the Settlement is in the public interest and should be approved. The Settlement was achieved only after considerable investigation of UGI's gas procurement practices, through both discovery and submission of testimony by a number of Joint Petitioners in this proceeding. The Settlement, if approved by Administrative Law Judge Kandace F. Melillo and the Commission, will reduce the amount of expense and effort that will be required by the Joint Petitioners and the Commission to bring this matter to a conclusion. Furthermore, the Joint Petitioners and the Commission will be able to avoid the substantial effort and expense that would be incurred in continuing to litigate this proceeding, including preparation for and participation in hearings, preparation of briefs, reply briefs, exceptions, and replies to exceptions.

All of the Joint Petitioners to the Settlement also request that the required statutory findings be made in this proceeding. These statutory findings are appropriate and are amply supported by the information outlined in the Settlement and in the testimony filed by UGI in this proceeding.

The Settlement is the result of compromise. Each of the agreements set forth in the Settlement resolves a dispute fairly and without the expense and uncertainty associated with litigation. PNG accordingly fully supports the Settlement, and urges the presiding Administrative Law Judge and the Commission to approve the Settlement without modification.

Respectfully submitted,



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Counsel for UGI Utilities, Inc. –
Gas Division

Dated: August 17, 2010

Attachment 1

(Affidavit of J.P. Ghio)

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY	:	
COMMISSION,	:	Docket No. R-2010-2172933
OFFICE OF CONSUMER ADVOCATE,	:	Docket No. C-2010-2175547
OFFICE OF SMALL BUSINESS ADVOCATE,	:	Docket No. C-2010-2181712
Craig Karchner, and	:	Docket No. C-2010-2183642
Brian Yahner	:	Docket No. C-2010-2183540
	:	
Complainants and	:	
	:	
UGI INDUSTRIAL INTERVENORS	:	
AND SHIPLEY ENERGY, INC.,	:	
	:	
Intervenors	:	
	:	
v.	:	
	:	
UGI UTILITIES, INC. – GAS DIVISION	:	

AFFIDAVIT OF J.P. GHIO

Dated: August 17, 2010

1 Q. Please state your name and business address.

2 A. J. P. Ghio, 2525 N. 12th Street, Reading, PA 19612-2677.

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

4 A. I am the Vice President of Supply for UGI Utilities, Inc. (“UGI”).

5 Q. Are you the same J.P. Ghio that previously provided testimony and in this
6 proceeding?

7 A. Yes.

8 Q. What is the purpose of this affidavit?

9 A. To provide certain information that presiding Administrative Law Judge Kandace
10 M. Melillo stated, at the July 29, 2010 hearing in this proceeding, should
11 accompany the stipulation in settlement.

12 Q. What notice was provided to Rate GBM customers about the Rate GBM transition
13 rate mechanism proposed in this proceeding?

14 A. In addition to the standard bill inserts, UGI provides each year pursuant to 52 Pa.
15 Code §53. 68, UGI sent separate written notices to rate GBM customers who
16 would be potentially affected by the proposed transition to market-based propane
17 rates. Copies of the written notices provided, as well as the standard bill insert, are
18 attached as Exhibit UGI-JPG- Settlement-1 to this affidavit. Different forms of
19 notice were provided to different customer groups so that the message could be
20 better tailored to their circumstances.

21 Q. What are UGI’s plans for providing notice to Rate GBM customers in future PGC
22 proceedings?

23 A. UGI intends to provide a separate written notice to each of its Rate GBM

1 customers affected by the transition to market-based propane prices in advance of
2 each PGC filing. This notice, which will be sent in advance of each PGC filing,
3 will include the proposed Rate GBM transition commodity rate proposed in the
4 annual PGC filing. Each of these customers will also continue to receive the
5 standard PGC bill insert notice pursuant to 52 Pa. Code §53. 68. As I explained in
6 my Supplemental direct testimony, UGI has committed to convert 530 Rate GBM
7 customers to natural gas, and to absorb incremental propane costs that would
8 otherwise be recovered from these customers during the transition period. Since
9 these customers will see no change in their PGC rate, they will only receive the
10 standard bill insert notice required under 52 Pa. Code §53. 68. UGI has elected to
11 provide a separate written notice to rate GBM customers affected by transition
12 mechanism because the inclusion of separate transition rate information in the
13 standard bill insert might cause confusion among other PGC customers.

14 Q. Can you provide an update of the number of Rate GBM customers that will be
15 affected by the transition to market-based propane prices?

16 A. As of August 13, 2010, the number of affected customers, excluding Mr.
17 Karchner and Mr. Yahner, for whom service will be abandoned under the terms of
18 the settlement, will be 157.

19 Q. The presiding ALJ has also asked whether the settlement is going “to treat the
20 GBM mechanism, which was set forth in the 2009 settlement, as now being
21 resolved with respect to the pre-December 1, 2004 GBM customers.” Tr. p. 52.

22 Does UGI consider the rate mechanism to be resolved?

1 A. Initially, I would note that UGI agreed in the 2009 PGC settlement not only to
2 implement a transition rate mechanism for pre-December 1, 2004 rate GBM
3 customers in the current PGC, but also agreed as follows:

4 UGI will continue its obligation under the 2004 PGC settlement to justify
5 in its annual PGC filings continued full recovery of propane costs through
6 PGC rates for Rate GBM customers added on or after December 1, 2004
7 that have received Rate GBM service for five or more years. In the event
8 UGI can not justify continued full propane cost recovery through PGC
9 rates for these Rate GBM customers, they will be phased to market-based
10 propane rates over three years using the same methodology described
11 above for Pre-December 1, 2004 Rate GBM customers, but adjusting the
12 time periods to three years.

13 Accordingly, the Rate GBM transition mechanism proposed by UGI in this
14 proceeding, consistent with its commitments in the 2009 PGC settlement, also
15 proposes a market-rate transition mechanism for certain Rate GBM customers that
16 initiated service on or after December 1, 2004, although UGI currently has no
17 customer who would be subject to the post-December 1, 2004 transition
18 mechanism on December 1, 2010 but will have customers who would be subject
19 to the post-December 1, 2004 transition mechanism starting December 1, 2012. I
20 would also note that the 2009 PGC settlement did not propose for the
21 implementation of the rate GBM transition rate mechanisms in the compliance
22 filing in the 2009 PGC proceeding, but instead specified that these mechanisms
23 would not become effective under December 1, 2010, and further specified that a

1 separate written notice would be provided to affected rate GBM customers. I am
2 advised by counsel that now that notice has been provided, an opportunity to be
3 heard has been afforded, if the rate mechanism is approved, it should be immune
4 from retroactive challenges, and that future complainants seeking to challenge the
5 mechanism on a prospective basis will carry the burden of proof.

6 Q. *Does this conclude your affidavit?*


7 A. Yes.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY	:	
COMMISSION,	:	Docket No. R-2010-2172933
OFFICE OF CONSUMER ADVOCATE,	:	Docket No. C-2010-2175547
OFFICE OF SMALL BUSINESS ADVOCATE,	:	Docket No. C-2010-2181712
Craig Karchner, and	:	Docket No. C-2010-2183642
Brian Yahner	:	Docket No. C-2010-2183540
	:	
Complainants and	:	
	:	
UGI INDUSTRIAL INTERVENORS	:	
AND SHIPLEY ENERGY, INC.,	:	
	:	
Intervenors	:	
	:	
v.	:	
	:	
UGI UTILITIES, INC. – GAS DIVISION	:	

VERIFICATION

I, J.P. Ghio, depose and say that I am Vice President - Supply for UGI Utilities, Inc. - Gas Division, that I am duly authorized to and do make this verification on its behalf; that the facts set forth in the foregoing affidavit are true and correct to the best of my knowledge information and belief; and that this verification is made subject to the penalties of 18 Pa.C.S. §4904 (relating to unsworn falsification to authorities).



J.P. Ghio

Exhibit UGI-JPG- Settlement-1

(Customer Notices)

NOTICE OF PROPOSED RATE CHANGES

To Our Customers:

UGI Utilities, Inc. – Gas Division (UGI) has announced that its purchased gas cost rates will decrease on June 1, 2010. As a result, the total bill for the typical residential heating, commercial and industrial retail customer will decrease by 2.3%, 2.3% and 2.4% respectively on June 1.

In addition, UGI is filing its annual request with the Pennsylvania Public Utility Commission (PUC) to establish your purchased gas cost rates as of December 1, 2010.

UGI has requested a decrease from the purchased gas cost rates that will be effect June 1, 2010. The proposed December rates result in a decrease for the typical residential heating, commercial and industrial retail customer bill of 5.7%, 5.8% and 5.9% respectively.

The cumulative effect of the June adjustment and the proposed December rates is a decrease for the typical residential heating, commercial and industrial retail customer bill of 7.8%, 7.9% and 8.1% respectively from the rates that are in effect on May 31, 2010.

Purchased gas cost rates are designed to recover the cost of natural gas which the Company purchases from suppliers. The rate that is determined in the annual purchased gas cost case will be recalculated to reflect actual gas costs on a quarterly basis, and may be subject to change if the recalculated rate differs from the rate that is established in this case by more than two percent.

Your bill based on the December 1, 2010 rates requested by UGI may vary based on your usage and rate schedule. The proposed December 1, 2010 rates would result in a bill for a typical residential retail heating customer using 85 CCF per month of \$106.63 per month. The bill for a typical commercial retail customer using 39.3 MCF per month would be \$487.51 per month. The bill for a typical industrial retail customer using 100.6 MCF per month would be \$1,222.04 per month.

Customers who purchase their natural gas from an alternate supplier may be affected by this proposal.

You may examine a copy of the information filed with the Commission in support of its proposed purchased gas cost rates in the Company's offices. To find out your customer class or how the requested rates may affect your bill you may contact the Company at 1-800-276-2722.

The proposed rates are subject to examination by the PUC which shall schedule hearings to determine the proper rate level to be charged. The Company will have the burden to prove that the proposed rates are reasonable. After examining the evidence, the PUC may grant all, some, or none of the request.

You can challenge the Company's request by (1) filing a formal complaint, (2) sending a letter to the PUC or (3) testifying at a public input hearing. If you want a hearing before a judge, you must file a formal complaint. By filing a formal complaint, you assure yourself the opportunity to take part in hearings about the rate request. Public input hearings may be scheduled by the Commission if a large number of customers express interest in the case. At these hearings you have the opportunity to present your views in person to the PUC judge hearing the case and the Company representatives. All testimony given "under oath" becomes part of the official rate case record. These hearings are held in the service area of the Company.

Letters or requests for a formal complaint form should be addressed to the Pennsylvania Public Utility Commission, Post Office Box 3265, Harrisburg, PA 17105-3265.

For more information, call the PUC at 1-800-692-7380. You may leave your name and address so you can be notified of any public input hearings that may be scheduled in this case.



Draft letter single customer – GBM started 2006 – will be subject to future transition

Dear Ms XXX,

You are currently receiving service under UGI's Gas Beyond the Main ("GBM") program, which provides you with propane service at natural gas pricing and service provisions. We are writing to inform you of some important changes which will affect the prices you pay for your service from UGI.

The costs for propane are currently blended into the natural gas costs charged to all UGI customers. Propane is generally more expensive than natural gas. Because of this, UGI's natural gas customers are covering a portion of the cost of your propane service.

As part of UGI's annual 2009 Purchased Gas Cost filing with the Pennsylvania Utility Commission ("PUC") approved last August, UGI will implement a transition for all propane customers to pay the market cost of propane instead of our natural gas price. In order to help manage the impact of increased energy costs to you, we will transition to propane prices for your account over three years, beginning December 1, 2011, under the following schedule:

Effective Date	% of GBM Price Based on Natural Gas (PGC) Rates	% of GBM Price Based on Propane Market Price
12/1/2011	67%	33%
12/1/2012	33%	67%
12/1/2013	100%	0%

UGI offers an equal monthly payment plan that will spread your annual payment evenly over 12 months. You may find this payment option helpful during this transition period. For more information on this and other payment options, please call 1-800-276-2722.

Should you elect to do so, you are free at any time to discontinue your propane service from UGI and purchase directly from an alternate propane supplier of your choosing. This may require you to add an individual propane storage tank on your property, but no changes would be necessary to the equipment or appliances in your home. We would note that there may be a restrictive covenant on your property otherwise preventing you from installing a propane tank, however UGI will not enforce that covenant for any GBM customer electing to receive service from an alternate propane supplier.

You also have the right to file a complaint if you wish to challenge this transition. Letters or requests for a formal complaint form should be addressed to the Pennsylvania Public Utility Commission, Post Office Box 3265, Harrisburg, PA 17105-3265. Forms and instructions are available online at:

<http://www.puc.state.pa.us/general/filecomplaints.aspx>. You may also reach the PUC by calling 1-800-692-7380.

If you have any additional questions, please feel free to contact me

Major Account Representative
UGI Utilities, Inc.
Phone Number
Email Address



UGI Utilities, Inc.
2525 North 12th Street
Suite 360
Post Office Box 12677
Reading, PA 19612-2677
6101786-3400 Telephone

[REDACTED]
Mohnton, PA 19540

Dear Ms. [REDACTED]

You recently received a letter informing you of a transition to market based propane pricing. That letter indicated that your pricing would transition over a three year period beginning 12/1/2011. This schedule was based on our records indicating that your location began to receive Gas Beyond the Mains service in 2006. UGI recently discovered that this date was incorrect and that this location actually began to receive Gas Beyond the Mains service at a much earlier date. As a result, your transition to market based propane pricing will be different. As indicated below, your transition will begin 12/1/2010 and will be a five year transition. We apologize for the error in the original letter.

As noted in the earlier letter, you are currently receiving service under UGI's Gas Beyond the Main ("GBM") program, which provides you with propane service at natural gas pricing and service provisions. The costs for propane are currently blended into the natural gas costs charged to all UGI customers. Propane is generally more expensive than natural gas. Because of this, UGI's natural gas customers are covering a portion of the cost of your propane service.

As part of UGI's annual 2009 Purchased Gas Cost filing with the Pennsylvania Utility Commission ("PUC") approved last August, UGI will implement a transition for all propane customers to pay the market cost of propane instead of our natural gas price. In order to help manage the impact of increased energy costs to you, we will transition to propane prices for your account over five years, beginning December 1, 2010, under the following schedule:

Effective Date	% of GBM Price Based on Natural Gas (PGC) Rates	% of GBM Price Based on Propane Market Price
12/1/2010	80%	20%
12/1/2011	60%	40%
12/1/2012	40%	60%
12/1/2013	20%	80%
12/1/2014	0%	100%

UGI offers an equal monthly payment plan that will spread your annual payment evenly over 12 months. You may find this payment option helpful during this transition period. For more information on this and other payment options, please call 1-800-276-2722.

Should you elect to do so, you are free at any time to discontinue your propane service from UGI and purchase directly from an alternate propane supplier of your choosing. This may require you to add an individual propane storage tank on your property, but no changes would be necessary to the equipment or appliances in your home. We would note that there may be a restrictive covenant on your property otherwise preventing you from installing a propane tank, however UGI will not enforce that covenant for any GBM customer electing to receive service from an alternate propane supplier.

You also have the right to file a complaint if you wish to challenge this transition. Letters or requests for a formal complaint form should be addressed to the Pennsylvania Public Utility Commission, Post Office Box 3265, Harrisburg, PA 17105-3265. Forms and instructions are available online at: <http://www.puc.state.pa.us/general/filecomplaints.aspx>. You may also reach the PUC by calling 1-800-692-7380.

If you have any additional questions, please feel free to contact me

Gene Carroll
UGI Utilities, Inc.
(610) 736-5446
ecarroll@ugi.com

letter 1 – pre 2004 customers

Dear Customer,

You are currently receiving service under UGI's Gas Beyond the Main ("GBM") program, which provides you with propane service at natural gas pricing and service provisions. We are writing to inform you of some important changes which will affect the prices you pay for your service from UGI.

The costs for propane are currently blended into the natural gas costs charged to all UGI customers. Propane is generally more expensive than natural gas. Because of this, UGI's natural gas customers are covering a portion of the cost of your propane service.

As part of UGI's annual 2009 Purchased Gas Cost filing with the Pennsylvania Utility Commission ("PUC") approved last August, UGI will implement a transition for all propane customers to pay the market cost of propane instead of our natural gas price. In order to help manage the impact of increased energy costs to you, we will transition to propane prices for your account over five years, beginning December 1, 2010, under the following schedule:

Effective Date	% of GBM Price Based on Natural Gas (PGC) Rates	% of GBM Price Based on Propane Market Price
12/1/2010	80%	20%
12/1/2011	60%	40%
12/1/2012	40%	60%
12/1/2013	20%	80%
12/1/2014	0%	100%

For example, UGI's PGC rate effective June 1, 2010 is \$0.916 per hundred cubic feet ("CCF"). Beginning December 1, 2010, eighty percent of your price will be based on the current PGC rate and twenty percent will be based on the propane market price. Based on current projections, the December 1, 2010 GBM rate you will pay would be \$1.0937 per CCF. This would represent a 13% increase for a typical UGI residential heating customer.

UGI offers an equal monthly payment plan that will spread your annual payment evenly over 12 months. You may find this payment option helpful during this transition period. For more information on this and other payment options, please call 1-800-276-2722.

Should you elect to do so, you are free at any time to discontinue your propane service from UGI and purchase directly from an alternate propane supplier of your choosing. This may require you to add an individual propane storage tank on your property, but no changes would be necessary to the equipment or appliances in your home. We would note that there may be a restrictive covenant on your property otherwise preventing you

from installing a propane tank, however UGI will not enforce that covenant for any GBM customer electing to receive service from an alternate propane supplier.

You also have the right to file a complaint if you wish to challenge this transition. Letters or requests for a formal complaint form should be addressed to the Pennsylvania Public Utility Commission, Post Office Box 3265, Harrisburg, PA 17105-3265. Forms and instructions are available online at: <http://www.puc.state.pa.us/general/filecomplaints.aspx>. You may also reach the PUC by calling 1-800-692-7380.

If you have any additional questions, please feel free to contact me

Major Accounts Representative
UGI Utilities, Inc.
Phone Number
Email Address

Post 2004 customers at Arrowhead getting field visit

Dear Customer,

You are currently receiving service under UGI's Gas Beyond the Main ("GBM") program, which provides you with propane service at natural gas pricing and service provisions. We are writing to inform you of some important changes which will affect the prices you pay for your service from UGI.

The costs for propane are currently blended into the natural gas costs charged to all UGI customers. Propane is generally more expensive than natural gas. Because of this, UGI's natural gas customers are covering a portion of the cost of your propane service.

As part of UGI's annual 2009 Purchased Gas Cost filing with the Pennsylvania Utility Commission ("PUC") approved last August, UGI will implement a transition for all propane customers to pay the market cost of propane instead of our natural gas price. In order to help manage the impact of increased energy costs to you, we will transition to propane prices for your account over three years, beginning December 1, 2012, under the following schedule:

Year beginning	% of Price Based on Natural Gas Costs	% of Price Based on Propane Market Price
12/1/2012	67%	33%
12/1/2013	33%	67%
12/1/2014	0%	100%

A UGI marketing representative will be contacting you shortly to further explain this transition and answer any questions you may have.

UGI offers an equal monthly payment plan that will spread your annual payment evenly over 12 months. You may find this payment option helpful during this transition period. For more information on this and other payment options, please call 1-800-276-2722.

Should you elect to do so, you are free at any time to discontinue your propane service from UGI and purchase directly from an alternate propane supplier of your choosing. This may require you to add an individual propane storage tank on your property, but no changes would be necessary to the equipment or appliances in your home. We would note that there may be a restrictive covenant on your property otherwise preventing you from installing a propane tank, however UGI will not enforce that covenant for any GBM customer electing to receive service from an alternate propane supplier.

You also have the right to file a complaint if you wish to challenge this transition. Letters or requests for a formal complaint form should be addressed to the Pennsylvania Public Utility Commission, Post Office Box 3265, Harrisburg, PA

**17105-3265. Forms and instructions are available online at:
<http://www.puc.state.pa.us/general/filecomplaints.aspx>. You may also reach the
PUC by calling 1-800-692-7380.**

If you have any additional questions, please feel free to contact me.

Major Accounts representative
UGI Utilities, Inc.
Phone Number
Email Address

pre 2004 C&I customers receiving a field visit

Dear Customer,

You are currently receiving service under UGI's Gas Beyond the Main ("GBM") program, which provides you with propane service at natural gas pricing and service provisions. We are writing to inform you of some important changes which will affect the prices you pay for your service from UGI.

The costs for propane are currently blended into the natural gas costs charged to all UGI customers. Propane is generally more expensive than natural gas. Because of this, UGI's natural gas customers are covering a portion of the cost of your propane service.

As part of UGI's annual 2009 Purchased Gas Cost filing with the Pennsylvania Utility Commission ("PUC") approved last August, UGI will implement a transition for all propane customers to pay the market cost of propane instead of our natural gas price. In order to help manage the impact of increased energy costs to you, we will transition to propane prices for your account over five years, beginning December 1, 2010, under the following schedule:

Effective Date	% of GBM Price Based on Natural Gas (PGC) Rates	% of GBM Price Based on Propane Market Price
12/1/2010	80%	20%
12/1/2011	60%	40%
12/1/2012	40%	60%
12/1/2013	20%	80%
12/1/2014	0%	100%

For example, UGI's PGC rate effective June 1, 2010 is \$0.916 per hundred cubic feet ("CCF"). Beginning December 1, 2010, eighty percent of your price will be based on the current PGC rate and twenty percent will be based on the propane market price. Based on current projections, the December 1, 2010 GBM rate you will pay would be \$1.0937 per CCF. This would represent a 13% increase for a typical UGI residential heating customer.

A UGI marketing representative will be contacting you shortly to further explain this transition and answer any questions you may have.

UGI offers an equal monthly payment plan that will spread your annual payment evenly over 12 months. You may find this payment option helpful during this transition period. For more information on this and other payment options, please call 1-800-276-2722.

Should you elect to do so, you are free at any time to discontinue your propane service from UGI and purchase directly from an alternate propane supplier of your choosing.

This may require you to add an individual propane storage tank on your property, but no changes would be necessary to the equipment or appliances in your home. We would note that there may be a restrictive covenant on your property otherwise preventing you from installing a propane tank, however UGI will not enforce that covenant for any GBM customer electing to receive service from an alternate propane supplier.

You also have the right to file a complaint if you wish to challenge this transition. Letters or requests for a formal complaint form should be addressed to the Pennsylvania Public Utility Commission, Post Office Box 3265, Harrisburg, PA 17105-3265. Forms and instructions are available online at: <http://www.puc.state.pa.us/general/filecomplaints.aspx>. You may also reach the PUC by calling 1-800-692-7380.

If you have any additional questions, please feel free to contact me.

Major Accounts representative
UGI Utilities, Inc.
Phone Number
Email Address

APPENDIX C
(OTS Statement in Support)

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission, <i>et al.</i>	:	
	:	
	:	Docket No. R-2010-2172933
v.	:	
	:	
UGI Utilities, Inc. – Gas Division	:	

**OFFICE OF TRIAL STAFF
STATEMENT IN SUPPORT OF
STIPULATION IN SETTLEMENT OF
SECTION 1307(f) RATE INVESTIGATION**

TO ADMINISTRATIVE LAW JUDGE KANDACE F. MELILLO:

The Office of Trial Staff (“OTS”) of the Pennsylvania Public Utility Commission (“Commission”), by and through its Prosecutor, Richard A. Kanaskie, hereby respectfully submits that the terms and conditions of the foregoing Stipulation in Settlement of Section 1307(f) Rate Investigation (“Stipulation” or “Settlement Agreement”) are in the public interest and represent a just, reasonable and equitable balance of the interests of UGI Utilities, Inc. (“UGI” or “Company”) and its customers. The parties to this Settlement have participated in extensive Discovery and have conducted numerous settlement conferences. As a result, OTS, UGI and the other active parties have agreed upon the terms as delineated

in the foregoing Stipulation.¹ The request for approval of the Stipulation is based upon the OTS conclusion that the Settlement Agreement satisfies the applicable legal standards and, as such, is in the public interest. The Commission has noted that a settlement “reflects a compromise of the positions held by the parties of interest.”² The Commission continued by commenting that a settlement based on compromise “...arguably fosters and promotes the public interest.”³ A comparison of the positions presented by the parties and the terms included in the Settlement Agreement affirm the finding that compromises were reached and subsequently embodied in the document. A recommendation to approve the Settlement Agreement in its entirety is appropriate in this proceeding. The recommendation is supported by the following factors:

BACKGROUND

1. OTS agrees with, and, adopts the twenty-four (24) statements delineated in the Background section of the Settlement Agreement. The following OTS statements are offered as reaffirmations and supplemental statements and are not represented as being exclusive of the provisions contained in the Stipulation.

2. On June 1, 2010, the Company submitted its annual purchased gas cost (“PGC”) filing pursuant to Section 1307(f) of the Public Utility Code proposing rates for recovery of it’s the costs associated with purchasing natural gas for its customers.

¹ The UGI Industrial Intervenors are not signatories to the Stipulation in Settlement of Section 1307(f) Rate Investigation but have indicated they do not oppose the provisions contained therein. In addition, the Office of Consumer Advocate neither joins nor opposes the provisions contained in paragraph thirty-seven (37).

² *Pennsylvania Public Utility Commission v. C S Water and Sewer Associates*, 74 PA PUC 767, 771 (1991)

³ *Id.*

3. OTS entered its Notice of Appearance on June 9, 2010. This Notice of Appearance was preceded by the Office of Consumer Advocate's ("OCA") Formal Complaint and Public Statement that was filed on or about May 12, 2010. The OCA Complaint was followed by the Office of Small Business Advocate's ("OSBA") filing of its Formal Complaint and Public Statement on or about June 7, 2010. On June 17, 2010, the UGI Industrial Intervenors ("UGIII") filed a Petition to Intervene. In addition, Shipley Energy, Inc. ("Shipley") filed a Petition to Intervene on June 21, 2010. Notice of the Formal Complaint of Richard Adams, docketed at C-2010-2182016, was provided on June 17, 2010. In addition, Formal Complaints were received from Brian Yahner and Craig Karchner at Docket Nos. C-2010-2183642 and C-2010-2183540 respectively.

4. The matter was assigned to Administrative Law Judge ("ALJ") Kandace F. Melillo.

5. A Prehearing Conference was held on June 17, 2010. This Prehearing Conference also included Penn Natural Gas, Inc. ("PNG") at Docket No. R-2010-2172928 and Central Penn Gas ("CPG") at Docket No. R-2010-2172922. The three (3) separately docketed proceedings were procedurally consolidated for the limited purpose of Hearings. The Prehearing Conference resulted in the development of a procedural schedule. The schedule included filing dates for Testimony, Briefs and Reply Briefs as well as dates for Evidentiary Hearings to be conducted in Harrisburg. In addition, certain Discovery Response Rules were modified at the Prehearing Conference.

6. OTS submitted the Direct Testimony of Michael Gruber on July 9, 2010. In addition, testimony from the OCA, OSBA, Shipley and the Company was submitted in a timely manner.

7. In accordance with the Commission's policy encouraging settlements⁴ over costly and time consuming litigation, OTS, UGI and all other active parties were successful in achieving an agreement as to the disposition of all issues presented in this proceeding. The resulting Settlement was based on thorough Discovery, both formal and informal, as well as extensive meetings and discussions.

DISCUSSION

8. The Settlement Agreement includes the acknowledgement that the natural gas costs incurred by UGI during the historic period were done so under adherence to a least cost fuel procurement policy. The OTS analysis in this proceeding confirms this representation. A least cost procurement policy protects ratepayers from unnecessary and imprudent gas costs and prevents the Company from making a profit on gas supplies provided to its PGC customers.

9. The Stipulation also provides that the natural gas costs that UGI expects to incur in the upcoming period will be based on the Company's adherence to its established least cost fuel procurement policy. The Company's diligence in adhering to a least cost procurement strategy benefits customers directly in their gas bills. The Company's procurement strategy, despite the quarterly fluctuations, benefits ratepayers on an annual

⁴ 52 Pa. Code § 5.231.

basis as it ensures that the Company is diligently obtaining gas on a reliable basis for its customers at the most advantageous prices possible. This statutory policy must be adhered to and OTS is of the opinion that UGI's practices reflect this requirement and are based on sound regulatory principles. The Company's average costs reported to the Commission in its quarterly filings demonstrate the prudence of its purchasing practices.

10. The OTS review of the Company's annual PGC filing includes an analysis of its claimed E-Factor to ensure that it was done in accordance with established Commission practices. The E-Factor in this proceeding includes the interest associated with the under-collection or over-collection of revenue applied to the cost of natural gas acquired to serve its PGC customers during the historic period. The interest applied to under-collections is the legal rate of interest. The legal rate of interest is currently six percent (6%). The interest applied to over-collections is the legal rate of interest plus two percent (2%). Also included in the E-Factor are Supplier Refunds and any associated interest.

The proper calculation of the E-Factor protects ratepayers by ensuring that rates are adjusted appropriately to reflect the impact that these factors have on purchased gas costs. OTS is satisfied that the Company's E-factor calculations are appropriate and accurate and conform to proper regulatory practices.

11. In addition, the Company's projected gas costs ("C-Factor") are also planned in accordance with established Commission practices as determined by the OTS review. This adherence to accepted regulatory principles aids ratepayers in that the Company's purchased gas practices are being accomplished with the balanced interests of the Company

and its ratepayers being considered. The actual implementation of the Company's plan will be reviewed in next year's PGC proceeding. OTS opines that ratepayers are protected in that UGI does not gain any unwarranted financial advantage through its gas purchasing practices.

12. The Settlement Agreement provides that UGI may place into effect the natural gas supply rates as proposed and identified in Appendix "A" to the Petition. The proposed rates are subject to quarterly updates, with limited exceptions, as required by the Commission's Regulations. The OTS analysis in this proceeding supports that these rates are just and reasonable, accurately reflect the costs of its purchased natural gas and are based on sound regulatory practices. As such, OTS opines that these rates are in the public interest and should be approved.

13. OTS and the active parties to this proceeding are in agreement that the Company will adhere to the purchasing plan as established by the data and calculations provided in the Company's testimony and associated exhibits. The purchasing plan provides reasonable protections for ratepayers and enables the company to adhere to the regulatory requirements in acquiring supplies for its customers. The Company's projections and plans are reasonable and are in the public interest. Therefore, they should be adopted as presented.

14. The Settlement does not propose any adjustments to the Company's claimed PGC based on its reported Lost and Unaccounted for Gas ("LUFG"). OTS has reviewed the Company's filing and believes that UGI's reported LUFG is reasonable based on the

standards presented in this proceeding. No party has presented any evidence indicating that the LUFG reported in the instant proceeding is excessive or unreasonable. The OTS analysis was conducted based on the Company's most recent three-year average reported LUFG and the results demonstrate that the Company's practices with respect to controlling Lost, Unaccounted for and Company Use gas are effective. Calculating the level of LUFG based on a three-year average is a better standard as it accounts for yearly fluctuations and "it is long enough to smooth out short term variations and short enough to exclude out of date data."⁵ Based on its analysis, UGI's reported LUFG is below the level of most other Pennsylvania gas companies.⁶ The OTS participation in this Settlement is done with the satisfaction that the Company's practices with respect to LUFG based on a three-year average do not require an adjustment to the claimed gas costs in this proceeding. However, any trend showing an increase in the Company's LUFG may result in a different conclusion in future proceedings.

A reasonable amount of LUFG is expected in a natural gas distribution system. As the costs associated with this gas are recovered from ratepayers through the PGC it is necessary to take appropriate measures to control this expense. Establishing a level of LUFG based on a three-year average is an equitable way to measure the Company's LUFG experience. Future proceedings will protect ratepayers by ensuring that proper measures are placed into practice to continually maintain an acceptable level of LUFG. If acceptable levels of LUFG are not achieved, ratepayers will be protected from unjust and unreasonable

⁵ OTS Statement No. 1, p. 7.

rates by the regulatory provision that allows for the denial of the recovery of costs associated with imprudent Company practices. By any and all standards, UGI's LUFG levels are reasonable and no action or recommendation is necessary in this proceeding.

15. The Retainage percentage applied to transportation customers will reflect the appropriate level of LUFG and Company Use ("CU") gas. The Settlement Agreement further provides that UGI will exclude volumes associated with service to its Rate XD transportation customers receiving retainage discounts when determining the appropriate retainage percentage in its compliance filing in this proceeding. This provision will assist in minimizing subsidies between classifications. The establishment of the proper Retainage levels is necessary to ensure that transportation customers contribute an adequate, but not excessive, amount of gas to compensate for the corresponding system wide LUFG as well as Company Use gas. This practice of establishing proper Retainage percentages eliminates the unwarranted shifting of responsibility for LUFG and CU between retail and transportation customers. Proper Retainage levels equalize the responsibilities of the rate classifications and protect all ratepayers by ensuring equitable contributions to account for LUFG and CU.

The analysis resulting in the Company's Retainage percentage is based on its actual historical experience and subsequently protects retail customers from overpaying and providing a subsidy to transportation classifications. The Retainage percentage applied to UGI's transportation customers in this proceeding represents the appropriate level of its

⁶ Id., p. 5.

responsibility for LUFG and CU. As discussed above, establishment of the proper Retainage percentages protects PGC customers and transportation customers from unwarranted subsidies.

16. OTS has reviewed all aspects of the Company's claimed gas costs in the execution of its duties to protect the public interest in proceedings having an impact on rates. The annual PGC filings made by jurisdictional NGDCs are the appropriate forum for adjusting gas costs and the adjustment of gas costs associated with UGI's Gas Beyond the Mains ("GBM") program. As a result of extensive discussions and negotiations, OTS is satisfied that the Company has adhered to the settlement provisions presented in last year's PGC proceeding. The GBM program is of particular interest to OTS and is constantly monitored to ensure that unnecessary subsidies are eliminated.

17. The settlement provisions addressing the Formal Complaints of Brian Yahner and Craig Karchner represent a fair resolution of these disputes and provide adequate protection to all parties. The transition to an alternate heat source will eliminate ongoing subsidies to these customers. Furthermore, the Settlement Agreement mitigates the financial impact of the transition.

18. Although not specifically addressed in the Settlement Agreement, the Company's filing also provides that it will continued its existing sharing mechanism wherein it is permitted to retain a portion of the proceeds derived from Off-System Sales and Capacity Releases. The Company's sharing mechanism provision is used as an incentive for the Company to maximize the benefit available to customers from these

programs. The mechanism offered as an incentive is the retention of 25% of the revenue associated with these programs. The remaining 75% will be applied to customer gas costs as a means of reducing the overall PGC rate. OTS maintains that a reasonable sharing mechanism serving as an incentive for increased performance can be beneficial to ratepayers. The Company's mechanism is reasonable and consistent with programs used by other jurisdictional Natural Gas Distribution Companies ("NGDC"): Although continuation of the proposed sharing mechanism impacts the net cost of purchased gas, OTS is placated by the fact that maximization of these programs will generate additional revenue to offset the cost of purchased gas. A reasonable sharing mechanism for UGI benefits ratepayers beyond the detrimental impact to net purchased gas costs. Under current conditions and based on the other provisions of this Settlement, OTS maintains that continuation of the proposed sharing mechanism is reasonable. Continuing the sharing mechanism in the existing ratio provides sufficient incentive to the Company to maximize the potential of this asset while simultaneously benefiting customers by flowing this additional revenue back through the PGC thereby lowering the overall cost of purchased gas. The benefits of the program can be evaluated in subsequent UGI PGC filings.

19. The remaining issues raised in the OTS Prehearing Memo have been satisfactorily resolved through Discovery and settlement discussions with the Company and other interested parties. OTS is satisfied that no further action is necessary and considers its investigation of this PGC filing complete.

20. The Company's PGC practices adequately protect its ratepayers as its annual filings include provisions deemed appropriate in protecting the public interest. Provisions agreed to in last year's proceeding have been implemented and policies are in place to protect the Company's ratepayers from the impact of purchased gas on rates borne by the consumer.

CONCLUSION

21. Based upon OTS' analysis of the filing, acceptance of this proposed Stipulation is in the public interest as the provisions adequately protect the interests of all affected parties, including the signatories to this Settlement Agreement.

22. Resolution of these issues by settlement rather than litigation will avoid the substantial time, expense and uncertainty involved in continuing to formally pursue them in this proceeding. Expenses associated with acquiring natural gas for the benefit of its customers, including the reasonable costs associated with this proceeding are recoverable from ratepayers. Measures designed to limit expenses are in the public interest as they protect ratepayers from unnecessary costs. The avoidance of expenses should be considered when reviewing the Settlement.

23. OTS further submits that acceptance of the foregoing Settlement Agreement will negate the need for any Direct and Cross-Examination of witnesses, the preparation of Main Briefs, Reply Briefs, Exceptions and Reply Exceptions, and the filing of possible appeals on the issues contained herein. As discussed above, the avoidance of further Rate

Investigation expenses by settlement of this PGC proceeding serves the interests of UGI, the active parties and UGI's customers.

24. The Settlement Agreement is conditioned upon the presiding ALJ's Recommendation and the subsequent Commission approval of all the terms and conditions contained therein. In the event the ALJ does not recommend, or the Commission fails to grant, such inclusive approval, or otherwise modifies the terms and conditions of the Settlement Agreement, it may be withdrawn by OTS, UGI or any other signatory as provided therein.

25. OTS' agreement to settle this case is made without any admission or prejudice to any position that OTS might adopt during subsequent litigation in the event the Settlement Agreement is rejected by the Commission or otherwise properly withdrawn by any of the parties.

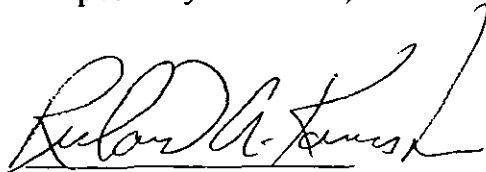
26. If the ALJ recommends that the Commission adopt the Settlement Agreement as proposed, OTS has agreed to waive the filing of Exceptions with respect to the issues contained herein. However, OTS does not waive its rights to file Exceptions with respect to any modifications to the terms and conditions of the Settlement Agreement that may be proposed by the ALJ in her Recommended Decision. OTS also reserves the right to file Reply Exceptions to any Exceptions that may be filed by UGI, the Intervenors or any Formal Complainant on any matter.

27. The Office of Trial Staff is satisfied that the provisions and data contained in the Company's annual PGC filing, as modified by this Settlement Agreement,

accurately support the finding that the Company's purchased gas costs and its practices adequately protect the public interest.

WHEREFORE, the Commission's Office of Trial Staff represents that it supports the Settlement Agreement as being in the public interest and respectfully requests that Administrative Law Judge Kandace F. Melillo recommend, and the Commission subsequently approve, the foregoing Stipulation, including all terms and conditions contained therein.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard A. Kanaskie", written over a horizontal line.

Richard A. Kanaskie
Senior Prosecutor
PA Attorney I.D. #80409

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Dated August 17, 2010

APPENDIX D

(OCA Statement in Support)

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :
v. : Docket No. R-2010-2172933
UGI Utilities, Inc. – Gas Division :

STATEMENT OF THE
OFFICE OF CONSUMER ADVOCATE
IN SUPPORT OF SETTLEMENT

The Office of Consumer Advocate (OCA), one of the signatory parties to the proposed Settlement of Rate Proceeding Pursuant to Section 1307(f) (Settlement), finds the terms and conditions of the Settlement to be in the public interest for the following reasons:

I. INTRODUCTION

On April 30, 2010, pursuant to Sections 53.64 and 53.65 of the Commission's Rules and Regulations, UGI Utilities, Inc. – Gas Division (UGI or Company) submitted its pre-filing information in support of its annual reconciliation of purchased gas cost (PGC) rates. UGI's pre-filed information did not indicate the anticipated effect of the annual PGC reconciliation on existing rates. On May 12, 2010, the OCA filed its Formal Complaint in this matter.

The Company's filing was assigned to the Office of Administrative Law Judge and was further assigned to Administrative Law Judge Kandace F. Melillo (ALJ Melillo), for

investigation and scheduling of hearings to determine whether the Company's gas costs comply with the standards set forth in the Public Utility Code.

On June 1, 2010, the Company made its definitive filing. The Company proposed a PGC(1) (residential) rate of \$8.40/Mcf.

On June 17, 2010, ALJ Melillo held a prehearing conference in this matter. A procedural schedule was established, and the parties agreed to certain modifications to the discovery rules on a going-forward basis.

As part of its investigation and analysis of the Company's filings, the OCA served multiple sets of discovery on UGI. On July 9, 2010, the OCA submitted the Direct Testimony of Jerome D. Mierzwa. That testimony set forth the OCA's recommendations as to: 1) UGI's proposed mandatory direct assignment of pipeline capacity to CHOICE suppliers, 2) UGI's practice of purchasing swing gas supplies under contracts with first-of-the-month pricing provisions, and 3) future reporting requirements regarding any gas losses from line hits. On July 22, 2010, the OCA also submitted the Rebuttal Testimony of Mr. Mierzwa. This testimony solely addressed mandatory direct assignment of pipeline capacity to CHOICE suppliers.

Settlement discussions were ongoing during this period of time, and resulted in the proposed Settlement of all outstanding issues. For the reasons set forth below, the OCA submits that the Settlement is in the public interest.

II. TERMS AND CONDITIONS OF THE SETTLEMENT

The following represents the terms of the Settlement that directly address all of the OCA's outstanding concerns in this case. The OCA expects that the other signatory parties will address those areas of the Settlement that apply to their issues.

Capacity Assignment

In his Direct testimony, Mr. Mierzwa expressed his concerns as to the Company's proposed mandatory capacity assignment options. OCA St. 1 at 5-6. Specifically, Mr. Mierzwa stated that, as UGI reserves capacity to meet the design peak day demands of its customers, failure to assign capacity to Choice Suppliers sufficient to meet design peak day demands could result in an inappropriate shifting of costs to PGC customers. The Settlement addresses this issue in great detail at pages 6-12. In particular, the Settlement provides that, commencing on December 1, 2010, CHOICE suppliers must elect to receive capacity in specific quantities. These required quantities will increase on November 1, 2011 and again on November 1, 2012. The Settlement terms address the OCA's concerns regarding mandatory capacity assignment because they assure that UGI will be able to mandatorily assign increasing quantities of capacity to CHOICE suppliers, thereby eliminating the inappropriate shifting of costs to PGC customers.

Swing Gas Supply Contracts

In his Direct testimony, Mr. Mierzwa expressed his concerns as to UGI's two annual gas supply contracts which permit the Company to purchase gas on any day during the month at the market, or index, price applicable for baseload gas supplies which began to flow on the first of that month. OCA St. 1 at 7. Specifically, Mr. Mierzwa concluded that, unless market conditions change, based on the current costs associated with these first-of-the-month swing supply contracts and current usage levels, the contracts are unlikely to provide a benefit to PGC customers. Mr. Mierzwa, therefore, proposed that UGI discontinue its practice of entering into these arrangements at this time. OCA St. 1 at 11. The Settlement provides that, effective December 1, 2010, UGI shall discontinue its practice of purchasing swing gas supplies under

contracts with first-of-month pricing provisions. This Settlement provision addresses the OCA's concerns.

Line Hit Reporting

In his Direct Testimony, Mr. Mierzwa concluded that, although the costs associated with line hits on the UGI system in the historic PGC period have not been substantial, the Company should include information on such hits in future 1307(f) filings so that the costs can continue to be monitored. OCA St. 1 at 14. The Settlement provides that UGI will track gas losses associated with line hits and include a report of such losses in its next PGC proceeding. This resolution is acceptable to the OCA.

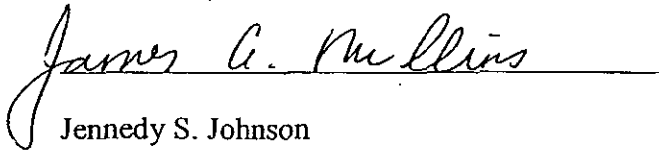
Settlement's Effect on Rates

The Company proposed a PGC(1) rate of \$8.40/Mcf. As a result of the Settlement terms described above, the PGC(1) rate for UGI will be \$8.35/Mcf--a decrease of \$0.05/Mcf.

III. CONCLUSION

For the foregoing reasons, the Office of Consumer Advocate submits that the terms and conditions of the Settlement are in the public interest and therefore, should be approved.

Respectfully submitted,

A handwritten signature in cursive script that reads "James A. Mullins". The signature is written in black ink and is positioned above a horizontal line.

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Date: August 16, 2010

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APPENDIX E

(OSBA Statement in Support)

The Stipulation

The *Stipulation* sets forth a comprehensive list of issues that were resolved through the negotiation process. The following issues were of significance to the OSBA when it concluded that the *Stipulation* was in the best interests of UGI's small business customers.

1) **Unaccounted-for Gas** – In his direct testimony, OSBA witness Robert D.

Knecht explained what “unaccounted-for gas” is, as follows:

UFG [unaccounted-for gas] is the difference between an NGDC's [natural gas distribution company's] metered gas receipts from the interstate pipelines and the metered gas deliveries to the Company's customers. It can be caused by metering errors, leaks, mismatches in the timing of meter reads, changes in the amount of gas in the Company's distribution mains, and other factors.

The 'UFG rate' is the ratio of UFG gas to total gas receipts.

UFG rates will often vary considerably from month to month, and to a lesser extent from year to year, based on a variety of factors. For that reason, when evaluating both levels and trends in UFG rates, analysts will generally consider longer term rolling averages.

UFG is reflected in rates paid by both purchased gas cost ('PGC') and transportation customers. Transportation customers contribute to UFG costs through their retainage rates . . . PGC customers implicitly pay for all other UFG in their gas cost rates.

OSBA Statement No. 1, at 2.

Initially, due to incomplete data from the Company, Mr. Knecht was unable to determine whether UGI's UFG rate was increasing or decreasing. OSBA Statement No. 1, at 3. However, UGI provided updated data in its rebuttal testimony. Mr. Knecht responded to that rebuttal testimony, as follows:

The updated information in Mr. Ghio’s rebuttal testimony provides the following information regarding UFG rates (exclusive of company-use gas):

Table IEc-S1 UGI Gas UFG Rates (UFG to Sendout Ratio)		
Year-Ending September:	12-Month Average	36-Month Average
2005	-0.17%	N/A
2006	0.47%	N/A
2007	0.67%	0.32%
2008	0.46%	0.54%
2009	0.51%	0.55%

As shown in Table IEc-S1, the three-year average UGI Gas UFG rate has increased somewhat since 2007, although this increase may be due to the anomalous negative UFG rate reported for year-ending September 2005.

OSBA Statement No. 2, at 1.

The OSBA is concerned that UGI may be experiencing an increase in its UFG as demonstrated by the 36-month average. However, it is unclear at this time whether there is, in fact, an actual increase in the UFG, or if the increase is the result of “anomalous” data.

Consequently, the Stipulation addresses this issue by requiring the Company to track and report on its UFG initiatives and results in its 2011 Section 1307(f) proceeding. That will allow the OSBA to determine whether UGI’s UFG rate actually is increasing, and whether the Company has taken sufficient steps to address that increase.

2) Retainage Calculation – Mr. Knecht addressed the Company’s retainage calculation in his direct testimony, as follows:

Retainage represents the difference between the amount of gas that the transportation customer is obligated to deliver to UGI Gas’s city gate and the amount of gas consumed by

a transportation service customer. This difference represents the transportation customer's contribution to both UFG and company-use gas. Because both transportation customers and PGC customers contribute to the need for UFG and company-use gas, both sets of customers should pay for it.

OSBA Statement No. 1, at 3.

Mr. Knecht explained how the Company performed its retainage calculation, as follows:

As explained by Company witness Mr. William J. McAllister, pursuant to the settlement of the Company's 2009 Section 1307(f) proceeding, UGI Gas determines its retainage rate for most transportation customers based on the 36-month rolling average rate for UFG plus company-use gas. Under that settlement, the retainage rate goes into effect on December 1, based on the 36 months ending September 30 immediately preceding the December 1 date. Thus, for example, the Company's retainage rate for December 2010 to November 2011 will be based on the 36-month average ending September 2010.

For UGI Gas's largest transportation customers, served under Rate XT, the retainage rate is 0.5 percent.

OSBA Statement No. 1, at 4 (footnote omitted).

However, Mr. Knecht identified a problem with the Company's methodology:

In concept, I agree that the retainage rate should be set based on a moving average of actual UFG plus company-use rates. If the retainage rate applies to all transportation customers, this approach will mean that transportation customers will, on average over time, contribute the same amount to UFG and company-use gas costs as will PGC customers.

However, this approach may require adjustments in some circumstances. In some cases, particularly those where large transportation customers are located at or near a transmission pipeline, the amount of UFG associated with each of those customers is likely to be well below system

average or zero. For those customers, the NGDC may reasonably offer reduced or zero retainage rates.

However, when such discounted retainage rates are offered, care must be taken when calculating historical average UFG/company-use rates.

OSBA Statement No. 1, at 4.

Mr. Knecht observed that the “PGC customers’ contribution to UFG is based on the total system amount *less* the retainage provided by transportation customers.” *Id.*, at 5 (emphasis added). As a result, if certain “special” transportation customers have retainage rates set significantly below the system average retainage rate, the PGC customers will effectively have to contribute more to make up for that shortfall. As Mr. Knecht explained, “This result is not equitable, because PGC customers are no more responsible for UFG or company-use gas than are regular transportation rate customers.” *Id.*

Mr. Knecht proposed the following solution to this problem:

This problem can be resolved by simply excluding both the throughput volumes and the retainage associated with any transportation customers with flex retainage rates.

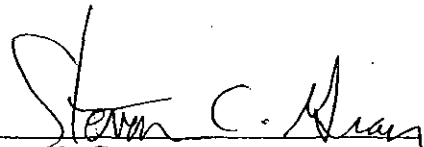
OSBA Statement No. 1, at 5. For UGI, this means excluding the Company’s Rate XT transportation customers from the calculation of the retainage rate.

The *Stipulation* adopts Mr. Knecht’s proposal. Specifically, UGI will exclude the volumes associated with Rate XT customers (who are receiving retainage discounts) from the retainage rate calculation.

Conclusion

For the reasons set forth in the *Stipulation*, as well as the additional factors enumerated in this statement, the OSBA supports the proposed *Stipulation* and respectfully requests that the ALJ and the Commission approve the *Stipulation* in its entirety.

Respectfully submitted,



Steven C. Gray
Assistant Small Business Advocate
Attorney ID No. 77538

For:

William R. Lloyd, Jr.
Small Business Advocate
Attorney ID No. 16452

Office of Small Business Advocate
Suite 1102, Commerce Building
300 North Second Street
Harrisburg, PA 17101

Dated: August 17, 2010

v

APPENDIX F

(Shibley Statement in Support)

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Before the Honorable Kandace F. Melillo, Presiding Administrative Law Judge

Pennsylvania Public Utility Commission :
 :
 v. : Docket No. R-2010-2172933
 :
 UGI Utilities, Inc. – Gas Division :
 1307(f) :

**STATEMENT IN SUPPORT OF SETTLEMENT
OF SHIPLEY ENERGY COMPANY**

AND NOW, comes Shipley Energy Company (“Shipley”) by and through its counsel, Hawke McKeon & Sniscak LLP, and hereby offers this Statement in Support of the Stipulation in Settlement of Section 1307(f) rate investigation that includes all parties to the above-captioned matter.

1. On or about June 1, 2010, UGI Utilities, Inc. – Gas Division (“UGI”) made its definitive 1307(f) filing. In addition to the “usual” 1307(f) materials, however, UGI’s filing also contained a proposal for a mandatory capacity assignment program that would require Natural Gas Suppliers (“NGS”) operating on the UGI system to take assignment of, and to pay for, a level of pipeline capacity assets. The pipeline capacity assets in question would be priced at the average weighted cost of all UGI’s capacity assets, both base-load and peaking, as well as storage and other assets, even though no storage or peaking assets were proposed to be assigned. UGI’s proposal provided for the assignment at a level calculated to be sufficient for an average January day, beginning in December of 2010. Beginning November 1, 2011, however, UGI’s

initial proposal would have the pipeline capacity assignment escalate to a design peak day level of assets which would have increased the level of assets assigned and the associated costs significantly.

2. Shipley intervened in the above-captioned case on June 18, 2010, and its intervention was granted by order of the Presiding ALJ on June 28, 2010. Shipley presented direct and rebuttal testimony in this case, through its witness James Crist, and actively engaged in settlement negotiations with all the parties including UGI. Shipley's concern in this matter has been limited solely to UGI's proposed mandatory capacity assignment mechanism.

3. Shipley's litigation position addresses several aspects of UGI's proposal, including Shipley's belief that UGI is not permitted to assign unspecified capacity assets to natural gas suppliers ("NGS") per the requirements of 66 Pa. C.S. § 2201(d)&(e). Rather, under the provisions of those two sections of the statute, UGI is permitted to assign on a mandatory basis only those assets which it had held or renewed as of the date of enactment of the Natural Gas Choice & Competition Act, 66 Pa. C.S. § 2201, *et seq.*, or those that it had renewed within a 150 days thereof. Otherwise, any such assignment would be required to be made purely on a voluntary basis. UGI's filing did not provide specific information that would allow Shipley to identify those assets being assigned and whether those assets fell under the requirements of the statute.

4. Shipley's litigation position also addressed its view that the statute required that the level of assets to be assigned shall be "sufficient to serve the level of the customer's requirements" and that the supplier could be charged only for the assets assigned at the contract price. 66 Pa. C.S. § 2204(3). UGI's plan provided that suppliers would be assigned assets based on a bundled price of all its capacity assets, including those not being assigned, and that those assets did not include some of the better pipeline assets and included no storage assets. Through

the testimony of its witness, Shipley also contested the level of the assets being assigned concluding that at the price the assets were going to be assigned, the level of the components of the assigned capacity could cause Shipley to incur greater costs of providing service to those customers than it does today, which would have economic harm to Shipley. UGI chose not to include storage assets in the assignment, which Shipley believes would be required to serve its customers, and which would have allowed Shipley to mitigate some of the increased costs of the program by being able to put gas in storage during the summer and to use that storage to its own benefit. Shipley also believed that UGI's intention to assign assets based on a design day level was unreasonable. UGI's proposal did, however, contain a component that UGI would sell gas to Shipley at a summer index price that would mitigate some of the summer/winter price differential that would otherwise be perpetuated by UGI's unwillingness to include storage capacity assets in the assignment.

5. The Settlement changed the as-filed plan in a number of significant ways, to the extent that Shipley was able to agree. Most significantly, participation in the assignment program for the first year, service commencing in December 1, 2010, through October 31, 2011, has been made voluntary. This is a significant change because it will allow Shipley the year's time to adapt its current operations to a new system where it will be assigned capacity assets at a price that may not be as favorable in the market place. Moreover, to the extent that Shipley chooses to participate in one of the two options that would allow it to purchase gas at a summer index price from UGI, the delay in mandatory participation will allow Shipley to adapt its purchasing obligations to take advantage of those options.

6. UGI's plan also revises the plan for the period of November 1, 2011, through October 31, 2012. While the assignment will be mandatory during that period, UGI has added additional options for 2011, including an option to receive a 100% peak day release of pipeline

capacity at the bundling weighted average demand of all GPC capacity sourcing peaking assets. A second option would be to take a release of capacity equal to 50% of the daily delivery requirement and also to take a bundled City's sale of gas at a 50% of the forecast and DDR as well. The third option would be taking a 100% release at the January normal daily delivery requirement which is significantly less than the peak day requirement and the fourth option would be to take a 62% release of pipeline capacity and a 38% bundled sale of gas at the City gate.

7. Commencing of the third year, the settlement proposes only two options: 100% assignment of a peak day requirement or a bundled gas sale that would provide based upon 62% assigned capacity and 38% bundled gas sale. The settlement also extends the date for making the election of which option the NGS prefers from March 1, to July 15, except in the first year where the election must be made by October 15, 2010.

8. From Shipley's perspective, one of the most important aspects of the settlement concerns the third year when capacity is to be assigned at a peak day level. Despite the settlement, Shipley has grave concerns that such a level of assignment, without storage, will cause it significant harm. That is why the provision in paragraph 32 of the Settlement is vital to Shipley. That provision allows Shipley, or any other NGS, to challenge the peak day assignment methodology, if on or before October 31, 2013, the total design peak day Choice demand by Choice suppliers drops by to a level of 90% of the highest total design peak day demand during the previous three years, or if the total number of Choice customers served by Choice suppliers drops to a level of 90% of the highest total customer count for the previous year. In other words, the Settlement contains a safety valve which is vital to Shipley.

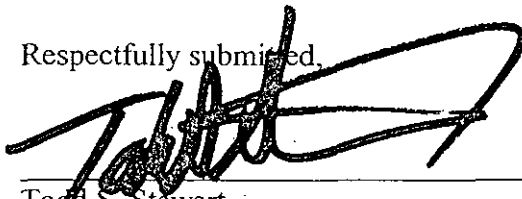
9. As a general matter, Shipley can agree to this Settlement because it will allow Shipley the opportunity to seek the assistance of the Commission to change UGI's mandatory

capacity at 100% of peak day level, without any inclusion of storage assets and without including the necessary peaking assets, if that assignments becomes economically unviable for Shipley.

10. While Shipley does not believe that Settlement is perfect, it believes that it is a reasonable compromise with the positions of the other parties that seek to assign cost responsibility to NGSs for what they believe to be an excessive level of capacity assets held by UGI. Shipley continues to believe as a general matter that any assignment of capacity should be voluntary, should include a bundle of all the assets necessary to serve customers, including storage assets, and that those assets should follow the customer.

11. Nonetheless, for the foregoing reasons, Shipley Energy respectfully requests that the Pennsylvania Public Utility Commission to approve the Settlement as filed.

Respectfully submitted,



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Counsel for Shipley Energy Company

DATED: August 17, 2010

APPENDIX G

(UGIII Letter of Non-Opposition)



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August 17, 2010

Honorable Kandace F. Melillo
Administrative Law Judge
Pennsylvania Public Utility Commission
400 North Street, 2nd Floor West
Harrisburg, PA 17120

**VIA E-MAIL AND
HAND DELIVERY**

**RE: Pennsylvania Public Utility Commission v. UGI Utilities, Inc. - Gas Division;
Docket No. R-2010-2172933**

Dear Judge Melillo:

UGI Industrial Intervenors ("UGIII"), an intervenor in this proceeding, hereby submits this letter to indicate that it neither supports nor opposes the Stipulation in Settlement of Section 1307(f) Rate Investigation in the above-referenced proceeding.

Please feel free to contact us with any questions regarding this letter. Thank you.

Very truly yours,

McNEES WALLACE & NURICK LLC

By

Vasiliki Karandrikas
Pamela C. Polacek (I.D. No. 78276)
Vasiliki Karandrikas (I.D. No. 89711)
Carl J. Zwick (I.D. No. 306554)

Counsel to UGI Industrial Intervenors

VK/sds

Enclosure

c: Rosemary Chiavetta, Secretary (via Hand Delivery)
Certificate of Service

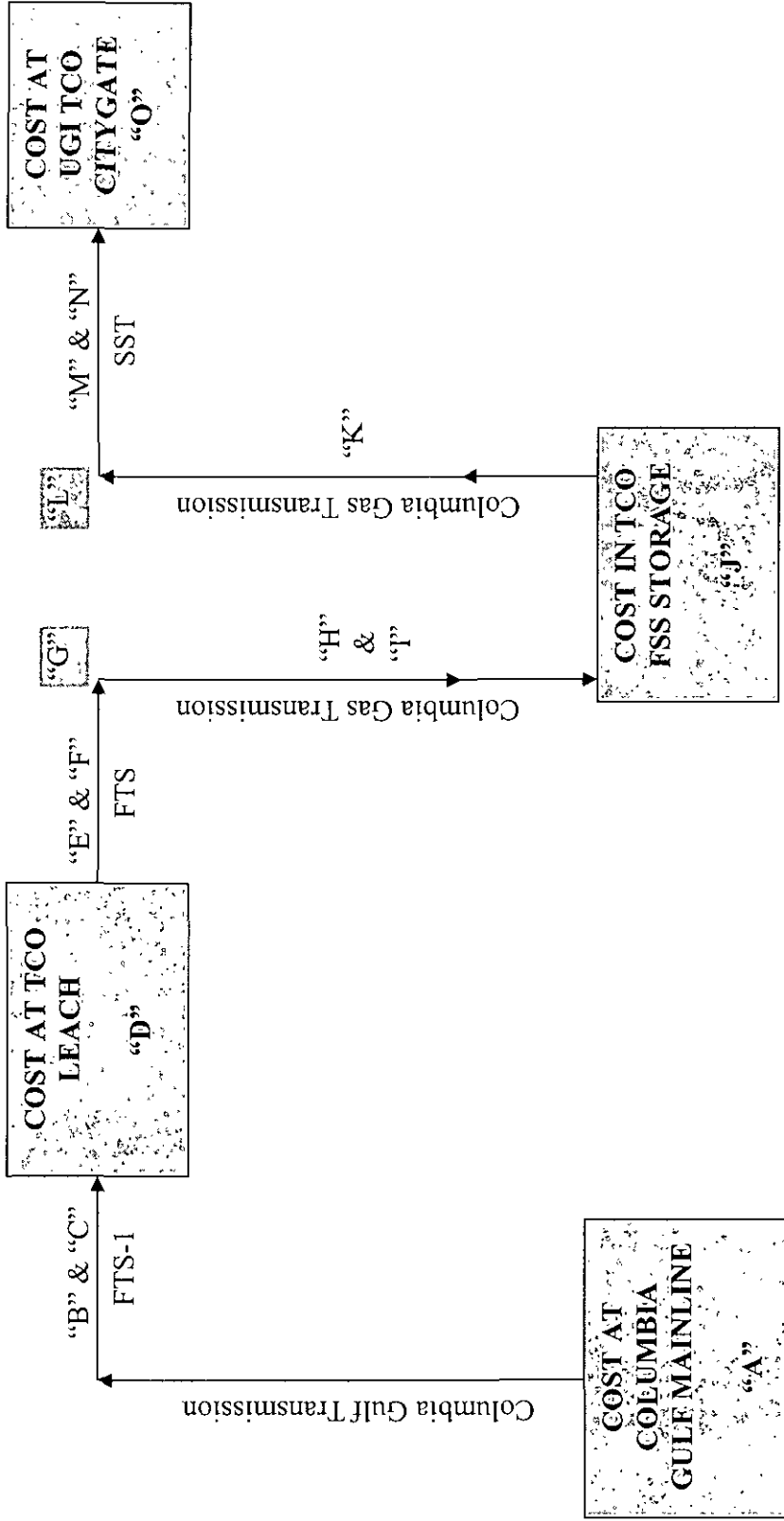
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EXHIBIT 1

(Option 2 and 4 Delivery Path)

Exhibit 1



CERTIFICATE OF SERVICE
(Docket No. R-2010-2172933, etc.)

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

VIA E-MAIL AND FIRST CLASS MAIL

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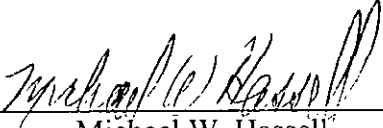
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Date: August 27, 2010



Michael W. Hassell

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