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June 23, 2011

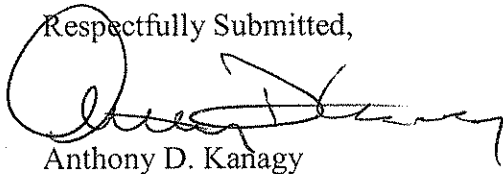
Rosemary Chiavetta
Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

**RE: Pennsylvania Public Utility Commission, et al. v. UGI Central Penn Gas, Inc.
Docket No. R-2010-2214415, C-2011-2223870, C-2011-2225011, C-2011-2225026 and
C-2011-2228493**

Dear Secretary Chiavetta:

Enclosed for filing is the Statement in Support of UGI Central Penn Gas, Inc. in Support of the Joint Petition for Approval of Settlement of All Issues. Copies have been provided as indicated on the certificate of service.

Respectfully Submitted,



Anthony D. Kanagy

ADK/skr

Enclosures

cc: Honorable Susan D. Colwell
Honorable Eranda Vero

CERTIFICATE OF SERVICE

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

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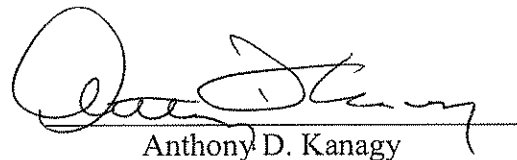
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Date: June 23, 2011


Anthony D. Kanagy

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission,	:	Docket Nos. R-2010-2214415
Office of Consumer Advocate,	:	C-2011-2223870
Office of Small Business Advocate,	:	C-2011-2225011
Bob Cummings,	:	C-2011-2225026
Raymond Howlin,	:	C-2011-2228493
	:	
Complainants,	:	
	:	
v.	:	
	:	
UGI Central Penn Gas, Inc.,	:	
	:	
Respondent.	:	

**STATEMENT OF UGI CENTRAL PENN GAS, INC.
IN SUPPORT OF THE JOINT PETITION FOR
SETTLEMENT OF ALL ISSUES**

TO ADMINISTRATIVE LAW JUDGES SUSAN D. COLWELL AND ERANDA VERO:

I. INTRODUCTION

UGI Central Penn Gas, Inc. (“CPG” or the “Company”) hereby files this Statement in Support of the Joint Petition for Settlement of All Issues (“Settlement”) entered into by CPG, 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”), Central Penn Gas Large Users Group (“CPGLUG”), Pennsylvania Independent Oil and Gas Association (“PIOGA”), and Commission on Economic Opportunity (“CEO”) (hereinafter, collectively “Joint Petitioners”) in the above-captioned base rate case proceeding. CPG respectfully requests that Administrative Law Judges Susan D. Colwell and Eranda Vero (the

“ALJs”) recommend approval of, and the Commission approve, the Settlement, including the terms and conditions thereof, without modification.

The Settlement, if approved, will resolve all of the issues raised by the Joint Petitioners in this proceeding, including revenue requirement, revenue allocation, low income customer program issues, and certain other rate design, operational, and tariff issues. The Settlement is in the best interest of CPG, its customers, and the Joint Petitioners and is otherwise in the public interest. It should accordingly be approved.

The Settlement was achieved only after a comprehensive investigation of CPG’s claims and operations. In addition to informal discovery, CPG responded to hundreds of formal discovery requests (many of which had multiple subparts). The active parties filed four rounds of testimony and accompanying exhibits, including CPG’s direct testimony, other parties’ direct testimony, rebuttal testimony, and surrebuttal testimony. Moreover, the active parties participated in numerous settlement discussions and formal negotiations, which ultimately led to the Settlement.

Finally, the active parties in this proceeding, and their counsel and experts, have considerable experience in rate proceedings. Their knowledge, experience, and ability to evaluate the strengths and weaknesses of their litigation positions provided a strong base upon which to build a consensus on the settled issues.

The Settlement reflects a carefully balanced compromise of the interests of the Joint Petitioners to this proceeding. For these reasons and the reasons set forth below, the Settlement is just and reasonable and, therefore, the above-captioned 2011 Base Rate Filing as modified by the Settlement should be approved.

II. SPECIFIC SETTLEMENT TERMS

A. Revenue Requirement

The Settlement provides for a distribution revenue increase of \$8.9 million annually, inclusive of \$900,000 per year for the Company's Energy Efficiency and Conservation ("EE&C") Plan. This is approximately 54% of CPG's original request of \$16.46 million. CPG Exhibit A – Future, Schedule A-1. The \$8.9 million increase, although less than that requested by the Company, should provide CPG the opportunity to earn a reasonable return and, thereby, attract capital on reasonable terms and conditions to allow CPG to continue to provide safe and reliable service to its customers.

As explained by Robert F. Beard, Vice President of Marketing, Rates and Gas Supply at UGI Utilities, Inc., the Company requires additional revenues because CPG's current rates do not provide it with a reasonable opportunity to earn a fair return. The need for rate relief at this time arises principally from three factors: (1) since its last rate case in 2009, CPG's plant in service has increased by 5 percent, through investments in new and replacement gas plant; (2) CPG has granted its employees modest annual wage and salary adjustments and will continue to do so; and (3) experienced and anticipated declines in per customer usage have caused CPG to receive less than satisfactory base revenues at present rate levels. (CPG Statement No. 1, p. 3.)

In this proceeding, CPG, OTS, OCA, and OSBA presented testimony on CPG's overall revenue requirement and related issues. As indicated above, CPG initially requested an increase of \$16.46 million, as adjusted in rebuttal testimony to approximately \$15.92 million. See Exhibit A (Future) (Updated) Schedule A-1. In its surrebuttal testimony, the OCA proposed a revenue increase of approximately \$383,000. See OCA St. No. 1-S, p. 17. In addition, based upon CPG's calculations, OTS proposed a revenue increase of approximately \$3 million. See CPG St.

No. 1-R, p. 2.¹ Moreover, OSBA, while not proposing specific expense adjustments, proposed a decrease in the Company's allowed return on equity to an upper limit of 10% which would equate to a proposed revenue increase of approximately \$13 million. See CPG St. No. 1-R, p. 3.

The Settlement revenue increase of \$8.9 million reflects a reasonable compromise of Joint Petitioners' positions in this proceeding. The Joint Petitioners, while supporting their required revenue requirement for litigation purposes, recognized that the Commission likely would have accepted certain adjustments proposed by Joint Petitioners, but would not have accepted all of the adjustments.

Under the Settlement, the settlement revenue requirement, with certain exceptions, is a "black box" number. Under a "black box" settlement, parties do not specifically identify revenues and expenses that are allowed or disallowed. CPG has found that the "black box" concept often facilitates settlement agreements because parties are not required to identify a specific return on equity or identify specific revenues and/or expenses that are allowed or disallowed. This process allows a settlement without requiring parties to agree on the resolution of specific issues raised in their testimony.

Under a "black box" settlement, it is not possible to determine: (1) which adjustments proposed by the parties were accepted, or (2) a specific allowed rate of return on equity. The revenue requirement under the Settlement is within the range of revenue requirements proposed by the Joint Petitioners. Given the entire Settlement, CPG believes that the revenue requirement is reasonable and will provide CPG with additional revenues that are necessary to provide safe and reliable service to customers. CPG believes that the Settlement appropriately balances the

¹ The OTS did not submit a schedule calculating the total effect of its proposed adjustments on revenue requirement.

interests of the Company in receiving necessary rate relief with its customers' needs for reasonable rates.

CPG notes that the Settlement provides that revenue at existing rates and billing determinants will be based on an annual usage of 82.1 Mcf per residential heating customer and 284.5 Mcf per commercial heating customer. In addition, the Joint Petitioners have agreed to add 750 residential heating and 300 commercial heating customers to the Company's original position. The usage per customer values and number of customers are necessary for developing final rates.

The usage per customer numbers reflect the numbers originally filed by the Company in this proceeding. The Joint Petitioners have agreed to increase the number of residential and commercial heating customers to reflect increases over the Company's original projections. See CPG St. No. 4-R, pp. 15-16; OCA St. No. 1, p. 27. The usage per customer numbers and number of customers reflect a compromise of parties' positions in this proceeding, and CPG believes that they are reasonable for settlement purposes.

CPG further notes that the Settlement specifically includes \$900,000 for an EE&C Program. Specification of this amount was necessary to define final class revenue allocations. In addition, the Settlement specifically provides that the Company's depreciation rates and amortizations are approved. Settlement ¶ 56. This is standard practice and provides for consistency in depreciation rates and amortizations between rate cases.

The Settlement also provides that rates will become effective for service rendered on and after the date of the Commission's order approving this Settlement. Settlement pp. 2, 14. This Settlement provision may provide CPG with additional revenues earlier than it otherwise would

have if this proceeding had been fully litigated. CPG believes that this Settlement provision is reasonable, especially given the compromises that CPG has agreed to under the Settlement.

The effect of the Settlement rates on residential customers is explained in Paragraph 20 of the Settlement. As noted therein, a typical residential heating customer purchasing 6.8 Mcf of gas from CPG per month would see an overall increase from \$87.03 to \$95.45 per month, or 9.7%, based upon purchased gas cost (“PGC”) rates in effect at the time of the filing.

B. Revenue Allocation

As in many cases, the class revenue allocation issues were among the most contentious issues in this proceeding. The Joint Petitioners proposed a variety of cost allocation methodologies, with no overall consensus as to the most appropriate methodology. Moreover, even to the extent certain of the Joint Petitioners agreed on the basic overall methodology, i.e. the Average and Extra Demand (“Average/Excess”) versus the Peak & Average methodology, these Joint Petitioners still disagreed on how to allocate certain other costs to the different rate classes, as well as how much movement toward cost of service was appropriate. Despite the fact that the Joint Petitioners were not able to develop a consensus opinion on the appropriate methodology for allocating costs or develop a single “cost of service,” they were able to agree to a revenue allocation that is within the range of revenue allocations proposed by the Joint Petitioners in this proceeding, and CPG believes that this revenue allocation meets the “cost of service” standards adopted by the Courts and the Commission.

In this proceeding, CPG filed a cost of service study based upon the Average/Excess methodology. CPG St. No. 7, p. 3. The Commission approved this methodology for CPG’s predecessor company, PPL Gas, in its 2006 base rate proceeding. *Pa. P.U.C. v. PPL Gas Utilities Corporation*, Docket No. R-00061398, Order entered February 9, 2007. Under the Average/Excess methodology, capacity costs are allocated to classes on a combined basis of

average use and use above average at peak demands. CPG st. No. 7, p. 5. With regard to revenue allocation, CPG proposed to move all classes substantially towards cost of service in this case, but adopted a rule of gradualism to temper the rate increase for each class so that no customer class would receive more than two times the system average increase. CPG St. No. 4, p. 22.

OSBA's witness, Mr. Knecht, while noting his disagreement with the Company's methodology, accepted it with certain modifications based upon the fact the CPG's approach was consistent with the methodology approved by the Commission for PPL Gas. Mr. Knecht also proposed to limit the class increases such that no class would receive more than 1.5 times the system average increase. OSBA St. No. 1, p. 22.

The OCA disagreed with CPG's use of the Average/Excess methodology and instead proposed to use a Peak & Average methodology to allocate mains and related costs. OCA St. No. 2, p. 23. The Peak & Average methodology assigns a higher weight to throughput or annual usage for allocating costs compared to the Average/Excess methodology. The OCA also proposed to allocate certain other costs in a different manner than that proposed by CPG. The primary effect of OCA's cost allocation methodology was to allocate fewer costs to residential customers and more costs to the larger customer classes.

Both OTS and CPGLUG generally accepted the Company's cost of service study. However, OTS proposed a modified scaleback whereby Rates R, N and DS would receive first dollar rate relief up to \$6,000,000 in the event the Commission approved less than the Company's requested increase. OTS St. No. 3, pp. 22-23.

All parties supported their respective cost of service studies for litigation purposes. However, the parties were willing to compromise in order to achieve a settlement of the revenue

allocation issues. The revenue increase for each class as agreed to under the Settlement and base distribution revenue percentage increase for each class are shown in the table below:

Customer Class	\$ Revenue Increase	Base Distribution Revenue Increase %
Rate R	\$6,279,840	17.5%
Rate N/NT	\$2,217,459	20.9%
Rate GL	\$ 6,119	15.0%
Rate DS	\$ 597,010	20.9%
Rate LFD	\$ 149,839	1.6%
Rate XD	(\$ 350,538)	-6.8%
Total	\$8,899,730	13.9%

As explained above, the Joint Petitioners did not agree on a single cost of service methodology for allocating revenues in this proceeding. In addition, as previously discussed, the Joint Petitioners did not agree to a specific rate of return in this proceeding, but rather agreed to a “black box” revenue requirement. Given these factors, it is not possible to calculate specific relative rates of return for each class or to determine exactly the extent to which the Settlement moves rates closer to “cost of service” for all Joint Petitioners. However, the litigation proposals of all parties to this proceeding moved rates substantially towards “cost of service” under their preferred cost allocation methodology.

Under the Company’s cost of service study presented in this proceeding, the rate of return produced by the residential class was below the system average at present rates. See CPG Exhibit 7-R-1, p. 4, Column 3, line 12. Therefore, CPG and OSBA proposed to allocate a large portion of the increase to residential customers to bring them closer to the system average return. Under the Settlement, the Joint Petitioners agreed to assign the Rate R class a base rate revenue

increase that is above the system average on a percentage basis, which confirms movement toward cost on a relative rate of return basis under the Company's study.

Likewise, under the Company's cost of service study, the rate of return from Rate N/NT customers was below the system average at present rates. Therefore, the Rate N/NT class received a higher than system average percentage increase, demonstrating movement toward cost of service.

Under the Company's cost of service study, the Rate DS class was substantially below the system average at present rates. CPG Exhibit D, Schedule C; CPG Exhibit 7-R-1. Under the Settlement, the Rate DS class receives a higher than system average increase which demonstrates movement toward cost of service.

The LFD class, however, was above the system average return at present rates under the Company's cost of service study. CPG Exhibit D, Schedule C; CPG Exhibit 7-R-1. Under the Settlement, the LFD class is receiving a base revenue increase that is substantially less than the system average increase of 13.9%, which again demonstrates movement toward cost of service.

The Rate XD class receives a rate decrease under the Settlement. CPG originally proposed a decrease for this class because it is significantly above cost of service at present rates under CPG's cost of service study. CPG Exhibit D, Schedule C; CPG Exhibit 7-R-1. The rate decrease for the Rate XD class will move this class closer to cost of service under the Company's cost of service study. Many of the customers who will be served on Rate XD customers have competitive options and, therefore, are on flexed rates. If rates to this customer class were any higher, it would increase the risk that Rate XD customers would choose competitive options, thereby reducing CPG's ability to recover its costs. This also could cause higher costs for other customer classes in later rate cases if the Rate XD customers choose an

alternative fuel or choose to bypass CPG's facilities through direct acquisition of Marcellus Shale gas.

As explained above, the revenue allocation under the Settlement represents a compromise and falls within the litigation positions of the Joint Petitioners. CPG notes that because of the disagreement over cost allocation studies and the "black box" nature of the settlement, it is not possible to precisely calculate the extent to which the Settlement moves rates closer to cost of service for all Joint Petitioners. However, as noted above, the Settlement revenue allocation assigns all classes that were below system average return under the Company's cost of service study a higher than system average increase and assigns all classes that were above system average rate of return a lower than system average increase. Therefore, it can be inferred that the Settlement rates move all classes towards cost of service under the Company's cost of service study.

Given all of these considerations, CPG believes that the revenue allocation under the Settlement is fully consistent with the Commonwealth Court's decision in *Lloyd v. Pa. P.U.C.*, 904 A2d 1010 (Pa. Cmwlth. 2006) ("*Lloyd*") and prior Court precedent regarding rate design. In compliance with *Lloyd*, the Settlement moves all rate classes closer to CPG's proposed cost of service.

In addition, in considering the *Lloyd* decision, it is important to recognize that *Lloyd* did not overturn prior judicial precedent with regard to rate design and the applicability of cost of service studies. When allocating revenues to the rate classes, the Commission is not required to adopt a single cost of service study and strictly allocate revenues according to the study's results. In *Executone of Philadelphia, Inc. v. Pa. P.U.C.*, 52 Pa. Cmwlth. 74, 79, 415 A.2d 445, 448 (1980), the Court stated as follows:

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

Likewise, in *The Peoples Natural Gas Co. v. Pa. P.U.C.*, 47 Pa. Cmwlth. 512, 409 A.2d 446, 456 (1979), (“*Peoples*”), the Court stated as follows with respect to rate design:

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

In addition, the Commission has broad discretion in establishing a rate structure. In *Peoples*, the Court also stated:

It is well settled that the establishment of a rate structure is an administrative function peculiarly within the expertise of the Commission. *Pittsburgh v. Pennsylvania Public Utility Commission*, 168 Pa. Super. 95, 78 A.2d 35 (1951). Further, this court has continually recognized that the findings of the Commission, if supported by competent evidence, will not be disturbed. *United States Steel Corp. v. Pennsylvania Public Utility Commission*, 37 Pa. Cmwlth. 173, 390 A.2d 865 (1978); *Philadelphia Suburban Transportation Co. v. Pennsylvania Public Utility Commission*, 3 Pa. Cmwlth. 184, 192-94, 281 A.2d 179, 185 (1971).

Peoples, 47 Pa. Cmwlth., *supra* at 533, 409 A.2d at 456.

As *Lloyd* and the other cases cited above demonstrate, the Commission retains considerable discretion in designing rates, is not required to follow any particular cost of service study, and can consider other factors, including gradualism, in designing just and reasonable rates. The agreed to revenue allocation under the Settlement reflects a movement towards cost of service under CPG’s Cost of Service Study, appropriately reflects principles of gradualism and is within the range of the different cost of service studies presented by the Joint Petitioners. As such, the Settlement’s proposed revenue allocation is fully consistent with the *Lloyd* decision and all other relevant precedent regarding revenue allocation.

C. Rate Design

Another important aspect of the Settlement is the agreement among the Joint Petitioners with regard to rate design issues. Under the Settlement, the monthly customer charge for residential customers will be \$14.85. In its filing, the Company proposed a residential customer charge of \$20.00 per month. CPG St. No. 4, p. 25. OTS proposed a residential customer charge of \$17.20 per month (OTS St. No. 3, p. 20) and OCA proposed a residential customer charge of \$14.85 per month (OCA St. No. 2, p. 35). The Settlement adopts OCA's proposed residential customer charge. As noted in its testimony, CPG believes that a higher residential customer charge is well supported by its cost study. CPG St. No. 4, p. 25. However, CPG recognizes that the level of monthly customer charges is an important issue for OCA, and CPG adopted the OCA position for settlement purposes.

Under the Settlement, the Joint Petitioners agreed to set the Rate N and NT customer charge at \$31.00 per month. CPG originally proposed a customer charge of \$26.00 per month for Rate N and NT. CPG St. No. 4, p. 25. However, in its testimony, OSBA expressed rate impact concerns for certain GMD customers that are projected to move to Rate NT. OSBA St. No. 1, p. 25. The GMD customers referenced by OSBA are higher volume users. Increasing the customer charge for Rate N/NT will serve to reduce the volumetric charge, thereby mitigating the rate impacts for GMD customers moving to Rate N/NT. CPG notes that its Cost of Service Study supported a customer charge of over \$31.00 per month for Rate N customers. CPG Exhibit 7-R-1, pp. 33-34.

Under the Settlement, the Joint Petitioners also agreed to set the Rate DS customer charge at \$200.00 per month. CPG initially proposed a Rate DS customer charge of \$400 per month, which was reduced to \$340.00 per month in rebuttal testimony. CPG St. No. 4-R, p. 35. However, OSBA expressed concern at the increase in customer charge some customers will

experience in moving to Rate DS. OSBA St. No. 1, p. 26. As a result, OSBA recommended a customer charge of \$200.00 for Rate DS. The Settlement adopts the OSBA recommendation.

CPG notes that OSBA also proposed to grandfather Rate GMD customer who transfer to Rate DS at discounted rates. OSBA St. No. 1, p. 26. The Joint Petitioners did not agree to do this under the Settlement. As noted in its testimony, CPG did not believe that it was practical or necessary to segment specific rate classes. CPA St. No. 4-R, pp. 33-34. In addition, CPG notes that the revenue allocation to the Rate DS class was capped at 1.5 times the system average increase as opposed to 2 times the system average increase proposed by CPG. This reduction in revenue allocation will mitigate rate impacts for Rate DS customers and is consistent with OSBA's recommendation on gradualism.

Under the Settlement, Joint Petitioners have agreed to reduce the proposed demand charge for Rate LFD from \$9.41 per Mcfd to \$5.50 per Mcfd. Given the other rate design changes agreed to in the Settlement, CPG sought to reduce the demand charge for Rate LFD in order to maintain relative economic differences between Rate LFD and other rate classes based upon annual usage or demand levels as close to those contained in CPG's originally proposed rates. If CPG did not lower the Rate LFD demand charge, certain higher volume, higher demand users would have migrated to Rate DS, thereby blurring the rate class distinctions under CPG's cost of service study. CPG believes it is very important to maintain the rate class distinctions based on appropriate customer volume/demand levels and notes that these distinctions are consistent with its affiliated NGDCs, UGI Utilities, Inc. and UGI Penn Natural Gas, Inc.

The Settlement also adopts a maximum demand charge of \$10.91 for Rate XD. In testimony, CPGLUG recommended that CPG adopt a maximum demand charge for Rate XD.

CPGLUG St. No. 1, p. 11. CPG did not believe that a maximum demand charge was necessary, but agreed to adopt such a charge in the Settlement to accommodate CPGLUG's concerns.

D. Energy Efficiency and Conservation Program

In this proceeding, CPG proposed a new EE&C Plan. CPG constructed a portfolio of programs that are designed to offer customer education, technical assistance and financial incentives to customers. The CPG team selected the programs based upon the anticipated market potential, the programs' cost-effectiveness, and considering the goal of achieving an equitable balance of measures that would be available to all within the targeted customer classes. CPG considered the experiences of other outside sources to identify programs with a high likelihood of success. The portfolio as a whole, and all of the individual programs in the portfolio, are cost-effective according to the Total Resource Cost guidelines established by the Commission. (CPG Statement No. 9, pp. 4-6; CPG Statement No. 10, pp. 3-4.)

CPG initially proposed to recover the costs of its EE&C Plan through a reconcilable Energy Efficiency and Conservation Rider ("EE&C Rider") under Section 1307 of the Public Utility Code. CPG also proposed to recover the lost revenues associated with the implementation of its EE&C Plan through a reconcilable charge, the Conservation Development Rider ("CD Rider").

The OTS, OCA, and OSBA each objected to at least a portion of the Company's proposed EE&C Plan, including funding, incentive and spending levels and the proposed recovery mechanisms. To address these concerns regarding the EE&C funding levels, the Joint Petitioners agreed that CPG will reduce its EE&C funding from a proposed \$2.8 million per year to \$900,000 per year. In addition, CPG agreed to withdraw its proposal to recover EE&C costs through a reconcilable rider without prejudice and agreed to recover program costs through base rates as requested by the OCA. See OCA St. No. 2, p. 37; Settlement ¶ 36. To address the

concerns regarding incentive levels, the Joint Petitioners agreed that CPG, OCA, and OSBA will discuss the programs and incentive levels as CPG develops the final EE&C Plan for implementation. (Settlement ¶¶ 33, 34.) The Joint Petitioners also agreed that the Company will file annual reports with the Commission and Joint Petitioners, addressing EE&C Plan spending and customer participation. (Settlement ¶ 35.) These Settlement provisions reflect a carefully balanced compromise of diverse interests in this proceeding.

As modified by the Settlement, the CPG EE&C Plan will offer an effective portfolio of energy efficiency and conservation measures which include customer education, rebates for high efficiency appliances and rebates for financing costs, all designed to increase the use and awareness of high efficiency gas appliances. Participants in the program will benefit from the energy savings associated with the use of higher efficiency appliances, and both participants and non-participants will benefit from the downward pressure on wholesale natural gas prices resulting from increased efficiencies, as well as the associated environmental benefits such as reduced emissions of greenhouse gases.

The Settlement provisions reflect a carefully balanced compromise of diverse interests in this proceeding. The EE&C Plan, as modified by the Settlement, will provide substantial benefits through energy savings and increased efficiencies, while also providing important environmental benefits. Accordingly, these provisions of the Settlement are just, reasonable, and in the public interest.

E. Universal Service

On July 1, 2010, UGI, PNG, and CPG (collectively the “UGI Companies”) jointly filed the initial version of the Universal Service and Energy Conservation Plan for 2011-2013 (the “USP Plan” or the “Plan”). The UGI Companies submitted an amended Plan on July 8, 2010, to correct the effective period of the Plan, which runs from January 1, 2011 through December 31,

2013. *See In re: Universal Service and Energy Conservation Plan of the UGI Companies for 2011-2013 Submitted in Compliance with 52 Pa. Code §§ 54.74 and 62.4*, Docket No. M-2010-2186052. On March 23, 2011, the Commission issued a Tentative Order approving, in part, the 2011-2013 USP Plan and concluding that, with one exception related to a rehabilitation pilot program under LIURP, the Plan was consistent with the universal service requirements of the Electricity Generation Customer Choice and Competition Act and the Natural Gas Choice and Competition Act, the universal service reporting requirements at 52 Pa. Code §§ 54.74 and 62.4, the Commission's CAP Policy Statement at 52 Pa. Code §§ 69.261-69.267 and the LIURP regulations at 52 Pa. Code §§58.1-58.18. (CPG Exhibit No. CAR-1.)

Commissioner Coleman issued a Statement at the Public Meeting held February 10, 2011, which was attached to the Tentative Order, regarding the UGI Companies' Customer Assistance Programs ("CAP") and the Department of Welfare's ("DPW's") recent policy change regarding the application of Low Income Home Energy Assistance Program ("LIHEAP") cash grants to the CAP customer's Asked-to-Pay amounts. In his Statement, Commissioner Coleman requested comments addressing whether the UGI Companies, in lieu of the proposal set forth in the Plan, should develop and implement the "CAP-plus method" that recently has been adopted by other utilities in order to mitigate the impact of the DPW's policy on non-CAP customers. The UGI Companies and interested parties have submitted written comments and reply comments in response to the Tentative Order and Commissioner Coleman's Statement. (CPG Statement No. 8-R, pp. 3-4; CPG Exhibit No. CAR-2.)

In this base rate proceeding, OTS, OCA, and CEO raised many issues regarding the structure and operation of CAP, recovery of CAP costs, and the structure and operation of the Low-Income Usage Reduction Program ("LIURP"). Many of the issues raised by OTS, OCA,

and CEO in this base rate proceeding have been raised and addressed in the comments and reply comments submitted in the Universal Service Program proceeding at Docket No. M-2010-2186052.

Under the terms of the Settlement, the Joint Petitioners have agreed that the Universal Service issues raised in this base rate proceeding regarding the implementation of the “CAP Plus Program” and the maximum CAP benefit, inclusive of an indexing proposal, will be deferred to the UGI Companies Universal Service triennial filing proceeding, at Docket No. M-2010-2186052. In the event that the Commission schedules evidentiary hearings in the triennial proceeding, the Joint Petitioners agreed that the Universal Service testimony of all witnesses presented in this case will be admitted into the record at Docket No. M-2010-2186052, subject to cross-examination in that proceeding. (Settlement ¶ 37.) Addressing these Universal Service issues in the UGI Companies Universal Service triennial filing proceeding will ensure consistency among all the UGI Companies and, further, will avoid the potential to arrive at different conclusions in two separate proceedings addressing similar issues. (CPG Statement No. 8-R, pp. 3-4.)

In this proceeding, OCA recommended that CPG should reinstate the process of using LIHEAP grants to reduce the CAP shortfall if DPW’s directive regarding LIHEAP is rescinded or otherwise not binding. (OCA Statement No. 4, p. 10.) Under the terms of the Settlement, CPG agreed to apply LIHEAP cash grants to CAP shortfall in the event that DPW revises its existing policy to permit application of LIHEAP grants to CAP shortfall. (Settlement ¶ 38.)

The Company previously agreed in the settlement of its last base rate case to reduce the CAP Shortfall Credits and pre-program arrearage forgiveness actually granted for CAP participants exceeding 3,500 by 17.2% when collected through the surcharge. See Joint Petition

for Settlement, Docket No. R-2008-2079675. In light of this settlement, CPG did not propose to revise this formula in this base rate proceeding. (CPG Statement No. 8-R, p. 15.) However, OCA recommended that CPG should offset its CAP credits by an amount equal to 10.86% of total revenue associated with the incremental number of CAP participants in excess of 2,518, and that CPG should offset its CAP pre-program arrearage forgiveness by an amount equal to 10.86% percent of the total arrearage forgiveness associated with the incremental number of CAP participants in excess of 2,518. (OCA Statement No. 4, pp. 29-31.) This recommendation is based upon the theory that CPG's uncollectible expense will decrease as the number of CAP customers increase. (OCA St. No. 4, p. 23.) CPG opposed OCA's recommendation because there is no specific relationship between increases in CAP enrollment and the reduction of uncollectible expense. CPG further noted that, even if OCA's offset is accepted, it must be adjusted because it does not reflect the appropriate bad debt for low-income customers or total residential customers. (CPG Statement No. 8-R, pp. 15-18.)

Under the Settlement, the Joint Petitioners have agreed that actual recoverable CAP shortfall costs and pre-program arrearage forgiveness shall be based upon actual shortfall credits granted and pre-program arrearage forgiveness granted less a 10.86% adjustment for amounts granted to CAP participants in excess of 2,700. The Settlement reflects a compromise of these competing litigation positions.

LIURP, also commonly referred to as the Weatherization Program, is offered to reduce the energy consumption of low-income customers through the installation of energy conservation measures and offering of education initiatives. LIURP is intended to reduce customer arrearages, collections, and termination costs by reducing the energy consumption of low-income customers. (CPG Statement No. 8, p. 8.)

LIURP expenditures are currently recovered through the Commission-approved USP Rider. The Company only recovers the actual LIURP dollars spent under the USP Rider. In this proceeding, CPG proposed to reduce its annual LIURP funding commitment level from \$500,000 to \$250,000, which is approximately 0.2 percent of the projected jurisdictional revenue as set forth in Commission's LIURP funding guidelines under 52 Pa. Code § 58.4. CPG Statement No. 8, pp. 10-11. As CPG explained in this proceeding, due to LIURP program transition issues and other issues, CPG has not been able to spend its budgeted LIURP amounts. Therefore, CPG proposed to reduce its budgeted LIURP amount to \$250,000 and to spend its prior shortfall amount. See CPG St. No. 8-R, p. 25. OCA and CEO recommended that CPG's proposal to reduce the annual LIURP funding commitment level from \$500,000 to \$250,000 be rejected. (OCA Statement No. 4, p. 34; CEO Statement No. 1, p. 6.)

Under the Settlement, the Joint Petitioners have agreed that, as of January 1, 2012, CPG's LIURP budget will be reset at \$500,000 per year. Any LIURP amounts expended in excess of \$250,000 shall be deemed to be expenditures of shortfall amounts from prior periods. In addition, CPG shall have no other obligation to spend prior shortfall amounts. (Settlement ¶ 40.) This represents a compromise of parties' positions in this proceeding because it maintains the \$500,000 LIURP budget level and addresses the Company's obligation to spend the prior shortfall amount.² CPG understands that comprehensive and well-planned outreach is an essential component of a successful LIURP program. (CPG Statement No. 8-R, p. 24.) CPG therefore agreed in the Settlement to implement multiple measures to increase LIURP spending, including: actively soliciting CBOs to increase LIURP spending; conducting a best practices review of the LIURP programs offered by other utility companies serving rural areas; initiating

² CPG notes that LIURP costs are recovered through its Universal Service Program Rider. Therefore, the Company has not collected the prior shortfall amount from customers.

greater outreach methods and partnering with various organizations that can effectively promote LIURP to customers in need; and adding an employee to facilitate LIURP outreach activities. (Settlement ¶¶ 41, 43.) These Settlement provisions reflect a carefully balanced compromise of diverse interests in this proceeding.

F. Tariff Changes

In this proceeding, CPG has proposed substantial changes to its existing tariff in order to harmonize CPG's tariff with those previously approved by the Commission for UGI and PNG. The changes to CPG's tariff, as modified by the Settlement, are appropriate for several reasons.

CPG is pursuing a "best practices" model based upon a review of the existing, Commission-approved tariffs of UGI and PNG. The standardization of the three tariffs will facilitate tariff administration and create common rate schedules, along with associated transportation and balancing rules and procedures where applicable, across the operating companies. Further, the standardization of the three tariffs should make it easier for suppliers to provide service and should foster greater competitive choices for customers. (CPG Statement No. 5, pp. 4-5, 11-12; CPG Statement No. 4, pp. 13-14.) Subject to the modifications set forth in the Settlement, as described below, the Joint Petitioners have agreed to or do not oppose the standardization of CPG's tariff with those previously approved by the Commission for UGI and PNG.

In this proceeding, CPGLUG argued that CPG's requirement that customer capacity contracts equal the term of the Customers' Service Agreement for Rate XD was not reasonable. CPGLUG St. No. 1, p. 8. In response, CPG explained that this criteria was reasonable because it provided assurance that XD customers had necessary capacity and allowed CPG to prudently plan for peak day capacity on its system. Under the terms of the Settlement, the Joint Petitioners agreed to revise the Rate XD availability criteria to permit customers to enter into capacity

contracts that are at least equal to one year or the remaining term of the customer's service agreement, whichever is less in duration, unless otherwise agreed by the customer and the Company. (Settlement ¶ 47.) This Settlement provision reflects an acceptable compromise of competing litigation positions because it will provide reasonable assurance to CPG that Rate XD customers have contracted for necessary capacity and will provide Rate XD customers with additional flexibility in entering into capacity contracts.

Section 16.2,³ of CPG's proposed Tariff No. 4, found on Original Page 56 of CPG Exhibit F – Proposed Tariff, is intended to maximize the utilization of CPG facilities for the benefit of all CPG ratepayers and assure continued safe and reliable service for all customers. Because bypass facilities can be duplicative of Company facilities, coordination of facility development will serve to minimize costs by a reasonable exchange of information that allows CPG to determine how best it can meet or beat a customer's competitive alternatives. Additionally, because such bypass facilities can be interconnected with Company facilities, important safety concerns, such as overpressure protection and the installation of check valves, should be raised and addressed as part of the coordinated development process. (CPG Statement No. 4-R, pp. 45-46.)

CPGLUG opposed Section 16.2 of CPG's proposed rules and regulations, arguing that it is too restrictive because it requires customers to coordinate with CPG the development of gas facilities located on a customer's property. Under the terms of the Settlement, the Joint Petitioners agreed that CPG shall revise and modify Section 16.2(a) and 16.2(b) of Tariff No. 4 to address the concerns raised by CPGLUG. (Settlement ¶¶ 44-46.) These revisions clarify when the customer will provide notice to CPG that the customer intends to construct gas

³ Due to the deletion of several sections of the tariff, this section was formerly Section 19.2 but is now 16.2 in Appendix A to the Settlement Petition, the pro forma tariff.

facilities, when customer facilities will be deemed to encroach upon the Company's facilities and when the Company shall act upon its right to approve customer facilities. The revised notice and coordination requirements are acceptable to CPGLUG and reflect a reasonable compromise of these competing litigation positions.

G. Natural Gas Vehicle Pilot Program

In this proceeding, CPG proposed a Natural Gas Vehicle Pilot Program ("NGVP Program") intended to promote the build-out of natural gas vehicles ("NGVs") from a demand development perspective. There is a renewed interest in NGVs because there are new technologies for drilling shale gas, there is a heightened recognition of natural gas's smaller carbon footprint as compared to gasoline and diesel oil, and there have been advances in transportation-oriented natural gas technology. (CPG Statement No. 5, p. 23.) CPG proposed to recover the cost of the NGVP Program through a reconcilable NGVP Rider, which would apply to all non-residential customers, except customers served under competitive rate schedules Rate IS or Rate XD, to cover the three-year funding of the pilot program. (CPG Statement No. 5, p. 24-25.) PIOGA supported the Company's proposal.

OCA opposed CPG's NGV proposal. OCA argued that CPG's proposal to support the development of a grant program to promote the build-out of natural gas vehicle infrastructure should be addressed in a generic proceeding. OCA also argued that a rider designed to support the infrastructure build-out of natural gas vehicles is not needed because there are other incentives available to commercial customers interested in natural gas fueling stations and natural gas vehicles (OCA Statement No. 5, pp. 22-23.)

OSBA recommended that the NGVP Rider be rejected because subsidies to a few customers within CPG's rural service territory will not further the development of the natural gas vehicle infrastructure. OSBA also argued that the lower, negotiated rate for natural gas service

under the NGVP Service Rider is inconsistent with cost allocation principles. (OSBA Statement No. 1, pp. 36-37.) OTS also opposed the NGVP Rider, recommending that the costs of the NGVP Program be recovered through a Natural Gas Vehicle base rate rather than a separate rider. (OTS Statement No. 3, pp. 26-27.)

To resolve the concerns regarding the proposed NGVP and NGV Rider, and to achieve an overall settlement in this proceeding, the Joint Petitioners agreed that CPG will withdraw its NGVP and NGV Rider without prejudice. CPG will further review this issue and may make additional proposals in the future.

H. Local Production

In this proceeding, PIOGA raised issues regarding CPG's process and procedures for connecting natural gas wells to CPG's distribution system. Despite the fact that CPG has a written procedure for evaluating the connection of local production, PIOGA argued that CPG should have a tariff process with definitive procedures and time frames for connecting natural gas wells to the utility's pipeline system. (PIOGA Statement No. 1, p. 2.) PIOGA also recommended that CPG limit the time for an engineering decision to 30 days after the receipt of a request and limit the time for coordination of a site meeting, preparation of cost estimates and provision of estimate and contracts to producer within 30 days of notice of approval. (PIOGA Statement No. 1, p. 4.)

CPG opposed PIOGA's recommendations to create a one size fits all process for connecting local production to CPG's system and incorporate this standard into the tariff because it fails to recognize that all connections with local production are not equal. A single standard would remove CPG's ability to exercise sound engineering judgment and severely limit local producers' access to the system. If CPG had a one size fits all procedure and process, CPG would need to write the rules to cover all circumstances, which would most likely limit the

number of producers connected to the system, create unnecessary burdens for many potential producers, extend the time and cost of connecting to the system, and ultimately limit the benefits to CPG's customers. (CPG Statement 1-R, pp. 9-10.)

Under the terms of the Settlement, the Joint Petitioners agreed that CPG will retain the existing CPG process/procedures for larger volume, higher pressure local production (i.e., Marcellus and other shale production), but will modify the existing process/procedures to reduce the overall time frame for connecting conventional low volume, low pressure local production to approximately 6 months. (Settlement ¶¶ 48-49.) Further, CPG agreed to modify certain notice process/procedures to ensure: timely disposition of new tap applications; coordination of site meetings; preparation of cost estimates; and provision of estimates and contracts to producers. (Settlement ¶¶ 50-52.) These Settlement provisions reflect a carefully balanced compromise of diverse interests in this proceeding.

PIOGA also made several recommendations regarding the operation of gas wells, particularly gas quality testing provisions. These recommendations range from advance notice of gas quality testing, to lowering the gas quality standard, to accepting gas that does not meet the gas quality standard while the producer tries to fix the problem. (PIOGA Statement No. 1, p. 5.) CPG concluded that PIOGA's recommendations were not appropriate for the many reasons set forth in its rebuttal testimony. (CPG Statement No. 1-R, pp. 10-15.)

To resolve the issues raised by PIOGA, CPG agreed to provide producers with an opportunity to correct gas quality problems, with retest within forty-eight (48) hours or as soon as practicable after producer's request and prompt restoration of gas flow if retest passed. (Settlement ¶ 53.) CPG also agreed to host a collaborative to address the following: (a) producer fabrication of measurement/regulating station; and (b) alternative methods (for testing

water vapor content. (Settlement ¶ 54.) These Settlement provisions are acceptable to PIOGA and reflect an acceptable compromise of these competing litigation positions.

I. The Settlement Satisfies the Issues and Areas of Concerns Raised by the Commission

In its March 17, 2011 Order suspending Tariff No. 4 and Tariff No. 4-S, the Commission identified several areas of concern with the Company's filing and instructed the parties to address these issues in this proceeding. In Appendix A to the Suspension Order, the Commission identified 7 areas of concern for parties to address. In addition, in the body of the Suspension Order, the Commission identified two additional areas for parties to address which include: (1) the Company's process for assigning customers to new rate schedules, and (2) the benefits and costs of the Company's proposed natural gas vehicle program. As explained below, the CPG's 2011 Base Rate Filing, as modified by the terms and conditions of the Settlement, satisfies the issues and areas of concern identified by the Commission.

1. CPG's test year revenue and expense claims must be closely examined to determine their accuracy and the extent to which they support the requested revenue increase.

As explained above, the parties have thoroughly investigated CPG's revenue and expense claims in this proceeding through informal and formal discovery, testimony and settlement negotiations. After this extensive investigation, the Joint Petitioners have reached a settlement of all issues, including the revenue increase and revenue requirement, which all of the Joint Petitioners have deemed to be a reasonable outcome.

In addition, CPG notes that its Future Test year revenues and expense claims are set forth in the following: CPG Exhibit A – Future, Schedules A-1 through D-35; CPG Statement No. 2, pp. 3-26; and CPG Statement No. 11, pp. 3-7. The Company's Historic Test Year revenues and

expense claims are set forth in the following: CPG Exhibit A – Historic, Schedules A-1 through D-35; CPG Statement No. 2, pp. 26-28.

- 2. The level of capital investment appearing in CPG's rate base claim must be closely reviewed to ensure that it was prudently made, and that any utility plant acquired is necessary, used and useful to the provision of [gas] distribution service.**

As the Company explained in this proceeding, CPG follows a standard process for selection and approval of all capital investment. During the budgeting and planning process, area field and operating managers submit a list and description of capital projects to be completed during the next year to the engineering group. The engineers and field managers then review the merits of each individual project to determine priority, level of necessary investment and resources needed to complete the work. The engineering group submits a reviewed and prioritized capital budget culled from all the field managers to senior management to be reviewed and approved with the operating budget. In addition, CPG has a field process in place that ensures that all of the property reflected in CPG's plant accounts is, in fact, used and useful. (CPG Statement No. 2, pp. 4-6; CPG Statement No. 2-S, pp. 6-8.)

In addition, the parties undertook a detailed examination of CPG's capital investments in this proceeding through discovery, multiple rounds of testimony and accompanying exhibits. This review included detailed and specific examination of CPG's capital investments.

- 3. CPG's proposed revenue allocation must be carefully examined to determine whether or not it is just and reasonable.**

The Company explained its method for allocating the revenue increase among the classes in the Direct Testimony of Paul J. Szykman and Paul R. Herbert. (CPG St. No. 4, pp. 19-29; CPG St. No. 7, pp. 3-8.) In addition, the Company's cost of service study which supports the revenue allocation is provided in CPG Exhibit 7-R-1.

In this proceeding, parties extensively investigated both the Company's class cost of service study and proposed revenue allocation. Extensive discovery was conducted on this issue, and OTS, OCA, OSBA and CPGLUG all filed testimony on class cost of service study and revenue allocation issues. See, e.g., OTS St. No. 3; OCA St. No. 2; OSBA St. No. 1; CPGLUG St. No. 1-R. As explained above, the Settlement resolves the many complex issues related to class revenue requirements and rate design that arose during the course of this proceeding. (See Section III.B, *supra*.) The Settlement achieves progress in the movement toward cost-based rates, as mandated by the decision of Commonwealth Court in *Lloyd*, but also adheres to the principle of gradualism in order to avoid rate shock for customers. The Settlement reflects an acceptable compromise of competing litigation positions.

4. The cost allocation methodologies utilized in CPG's class cost-of-service study must be thoroughly scrutinized in order to ensure that the results of the study are reasonably accurate, and to determine whether or not they support the Company's proposed revenue allocation.

As explained above, the Company's cost of service study is provided in CPG Exhibit 7-R-1 and is explained in the testimony of Paul R. Herbert. (CPG Statement Nos. 7 and 7-R.) In performing the cost of service study, Mr. Herbert relied upon the Average and Extra Demand Method which is a recognized cost of service methodology as described in the text "Gas Rate Fundamentals" published by the American Gas Association's Rate Committee. In addition, the Commission recently approved the use of this methodology in a litigated base rate proceeding for CPG's predecessor, PPL Gas Utilities Corporation. See Docket No. R-00061398, Order entered February 9, 2007.

The parties carefully scrutinized CPG's cost allocation methodologies both in discovery and in testimony. OSBA identified several corrections to the Company's study, which the

Company reflected in CPG Exhibit 7-R-1. In addition, OCA submitted a cost of service study based on the Peak and Average methodology. OCA St. No. 2, p. 23.

OCA, OSBA, and CPG each proposed revenue requirement allocations and rate designs based on the results of various cost of service studies. Despite variations in the results of the studies, the Joint Petitioners were able to reach a consensus regarding a fair allocation of the revenue requirement between classes in this proceeding.

5. **CPG's proposed customer education program and customer energy efficiency programs must be thoroughly reviewed to determine whether or not they are effective and cost justified. Also, the levels of CPG's claimed operating expense for these programs must be examined to ensure they are just and reasonable.**

CPG's energy efficiency programs are explained in the testimony of Paul H. Raab and Bryan J. Fitzpatrick. (CPG Statement Nos. 9 and 10.) The parties conducted extensive discovery on this issue, and OTS, OCA, and OSBA each objected to at least a portion of the Company's proposed three-year pilot EECF, including funding, incentive, and spending levels and the proposed recovery mechanisms. As explained above, the Settlement fully resolves these concerns and reflects a carefully balanced compromise of diverse interests in this proceeding. The EECF, as modified by the Settlement, will provide substantial benefits through energy savings and increased efficiencies, while also providing important environmental benefits.

6. **CPG's proposed updates to its tariffs to clarify certain provisions and eliminate other provisions must be reviewed to determine whether or not such changes are appropriate.**

As explained above, CPG is proposing to make substantial modifications to its tariff to harmonize its tariff with its affiliated natural gas distribution companies, UGI Utilities, Inc. – Gas Division and UGI Penn Natural Gas Inc. This will create commonality among all these companies. Additional revisions to CPG's tariff are explained in Mr. Lahoff's testimony and in the LIST OF CHANGES section of CPG Exhibit F – Proposed UGI Central Penn Gas Tariff Pa.

P.U.C. No. 4. (See Section III.C, *supra*.) Parties thoroughly reviewed the Company's proposed tariff and the Settlement adopts recommendations made by parties with respect to the proposed tariff. See Settlement ¶¶ 44-47. In addition, the Settlement reflects a compromise between CPG and CPGLUG with respect to certain tariff provisions applicable to large users.

7. CPG and the parties should address the impact of any such ring-fencing measures on the credit protection and on the bankruptcy-remoteness of CPG Energy Company from its parent or any of its affiliates, and whether any changes to those ring-fencing measures are necessary and in the public interest.

As CPG explained in this proceeding, it already has in place ring-fencing measures designed to protect it from the bankruptcy risks of affiliates and to protect CPG's credit. UGI Corporation's current corporate structure appropriately separates the lines of business of its subsidiary companies. As a consequence of this restructuring, UGI Utilities has a separate board of directors, separate books of account, separate debt instruments and separate bank accounts, with no co-mingling of funds or money pools with its parent, UGI Corporation, or other affiliates. Likewise, UGI Corporation maintains complete corporate separateness from its non-utility subsidiaries. (CPG Statement No. 2-S, p. 7.)

Since the formation of the holding company, the companies in the UGI family have carefully observed the separateness that this structure was designed to create. CPG is a direct subsidiary of UGI Utilities, Inc. and is subject to a similar level of corporate governance with a separate book of accounts and separate bank accounts. (CPG Statement No. 2-S, pp 7-8.)

As also explained in the Supplemental Testimony of Donald Brown, UGI Corporation and UGI Utilities have significant reporting requirements, which include financial performance and balance sheet information. One effect of these reporting requirements is that any attempt by UGI Utilities' parent company to transfer significant assets or cash out of the utility would be readily apparent on the balance sheet, capital structure and return on equity calculations that are

available to the Commission. (CPG Statement No. 2-S, pp. 10-11.) For these reasons and the reasons explained in CPG Statements 2-S and 2-R, CPG has demonstrated that it has adequate and effective ring-fencing measures in place.

8. Process for Assigning Customers to New Rate Schedules

On page 3 of the Suspension Order, the Commission stated that CPG's process for assigning customers should be reviewed to determine if it is appropriate and reasonable. CPG provided extensive detail regarding how existing customers have been assigned to the new rate schedules in the proof of revenue presentation in this proceeding. (CPG St. No. 4, pp. 15-18.) CPG also explained the process that the Company will take to actually transfer customers to these rate schedules. CPG notes that its personnel have prior experience in transferring PNG customers to new rate schedules and will rely on that experience when transferring CPG customers to new rate schedules.

CPG further notes that the OSBA conducted a detailed review of rate schedule transition issues, including the rate effects on certain customer groups. See OSBA St. No. 1, pp. 24-26. As explained above in Section II(C), the Joint Petitioners have addressed these concerns under the Settlement by modifying the rate design for Rates N, NT and DS to mitigate rate impacts on customers resulting from the transition to these new rate schedules.

9. Benefits and Costs of the Proposed Natural Gas Vehicle Program

On page 4 of the Suspension Order, the Commission stated that parties should review the Company's NGV program. As explained above, to resolve the concerns regarding the proposed NGVP and NGV Rider, and to achieve an overall settlement in this proceeding the Joint Petitioners agreed that CPG will withdraw its NGVP and NGV Rider without prejudice. (See Section III.F, *supra*.)

III. CONCLUSION

Through cooperative efforts and the open exchange of information, the Joint Petitioners have arrived at a settlement that resolves all issues in the proceeding in a fair and equitable manner. The Settlement is the result of detailed examination of CPG's finances and operations through hundreds of discovery responses, multiple rounds of testimony and accompanying exhibits, and extensive settlement negotiations. A fair and reasonable compromise has been achieved in this case, as is evident by the fact that all active parties, including CPG, OTS, OCA, OSBA, CPGLUG, PIOGA, CEO and the customer complainants all have agreed or agreed not to oppose the Settlement which resolves all issues in this proceeding.

WHEREFORE, UGI Central Penn Gas, Inc. respectfully requests that the Honorable Administrative Law Judges Susan D. Colwell and Eranda Vero recommend approval of, and the Pennsylvania Public Utility Commission approve, the Settlement, including all terms and conditions thereof, and that the Pennsylvania Public Utility Commission enter an order consistent with the Settlement that terminates the proceeding, closes the above-referenced dockets, and authorizes UGI Central Penn Gas, Inc. to issue the tariff supplement attached as **Appendix A** to the Settlement to become effective on and after the date of the Pennsylvania Public Utility Commission's Order approving this Settlement.

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