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File #: 2270/148555

August 23, 2011

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

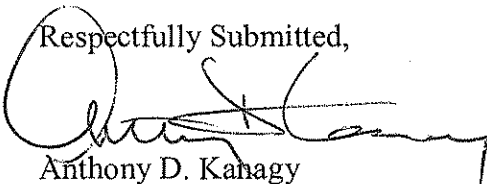
**RE: Pennsylvania Public Utility Commission, et al. v. UGI Penn Natural Gas, Inc.  
Docket No. R-2011-2238943, C-2011-2243199, C-2011-2248229 and C-2011-2248372**

Dear Secretary Chiavetta:

Enclosed please find the Stipulation in Settlement of Section 1307(f) Rate Investigation for the above-referenced proceeding.

As indicated by the certificate of service, copies have been provided to the persons in the manner indicated.

Respectfully Submitted,



Anthony D. Kanagy

ADK/skr

Enclosures

cc: Honorable Kandace F. Melillo  
Certificate of Service

**CERTIFICATE OF SERVICE**  
**(R-2011-2238943, C-2011-2243199, C-2011-2248229 and C-2011-2248372)**

I hereby certify that true and correct copies of the foregoing have 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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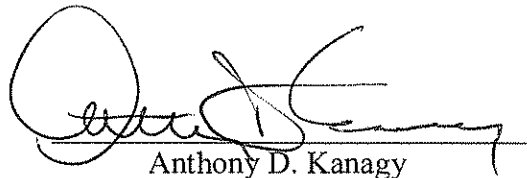
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Date: August 23, 2011

  
Anthony D. Kanagy

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY	:	
COMMISSION, ET AL.	:	
	:	Docket Nos. R-2011-2238943
v.	:	C-2011-2243199
	:	C-2011-2248229
UGI PENN NATURAL GAS, INC.	:	C-2011-2248372

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

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TO ADMINISTRATIVE LAW JUDGE KANDACE F. MELILLO:

**I. INTRODUCTION**

UGI Penn Natural Gas, Inc. ("PNG"), the Bureau of Investigation and Enforcement ("BI&E") of the Pennsylvania Public Utility Commission ("Commission"), the Office of Consumer Advocate ("OCA"), the Office of Small Business Advocate ("OSBA"),<sup>1</sup> CenterPoint Energy Services, Inc. ("CenterPoint"), Jerome H. Rhoads, Inc. d/b/a Rhoads Energy Corporation ("Rhoads"), Shipley Energy Company with Shipley Choice LLC (collectively, "Shipley" and in combination with CenterPoint and Rhoads collectively the "Supplier Group"), and Kathleen Moran-Roberto,<sup>2</sup> 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"),<sup>3</sup> and hereby request that Administrative Law Judge Kandace F. Melillo (the "ALJ") and the Commission:

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<sup>1</sup> The OSBA takes no position on the capacity assignment provisions of the Settlement.

<sup>2</sup> Ms. Moran-Roberto joins only as to Settlement paragraph 43.

<sup>3</sup> In addition, the Procter & Gamble Paper Products Company ("P&G"), the only other party in this proceeding, has indicated that it does not oppose the Settlement.

(1) authorize PNG to file a tariff supplement for service rendered on or after December 1, 2011, 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 Section 1307(f) and Section 1318 of the Public Utility Code, 66 Pa.C.S. § 1307(f) and 66 Pa.C.S. § 1318.

The rates set forth in Appendix A reduce PNG's June 1, 2011 PGC rates of \$6.7640 per Mcf applicable to Rate R (Residential Service) and GL (Gas Lights) customers to \$6.7606 per Mcf, or a reduction of \$0.0034 per Mcf. The Appendix A rates also reduce PNG's June 1, 2011 PGC rate of \$6.7251 per Mcf applicable to Rates N (General Service and CIAC (Commercial & Industrial Air Conditioning) customers to \$6.7217 per Mcf, or a reduction of \$0.0034 per Mcf.

Attached as Appendices D, E, F, G, H and I hereto are statements in support of the Settlement submitted by PNG, BI&E, OCA, OSBA, the Supplier Group and Ms. Moran-Roberto. Attached as Appendix J is a letter from P&G indicating that it neither supports nor opposes this Settlement.

## II. BACKGROUND

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

1. PNG 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 29, 2011, PNG provided the Commission with the prefiling information required by 52 Pa. Code § 53.64(c) and 52 Pa. Code § 53.65.

3. On or about May 3, 2011, the Office of Trial Staff (“OTS”) filed a Notice of Appearance.<sup>4</sup>

4. On or about May 11, 2011, the OCA filed a notice of appearance, formal complaint and public statement, docketed at C-2011-2243199, which PNG answered on June 3, 2011. The OCA filed an additional notice of appearance on July 15, 2011.

5. On or about May 16, 2011, P&G filed a notice of appearance and petition to intervene which was granted during the prehearing conference conducted on June 16, 2011 and confirmed in a subsequent Order dated June 22, 2011.

6. On June 1, 2011, in accordance with the schedule for Section 1307(f) filings established by the Commission, PNG submitted its 2011 PGC filing to the Commission, with proposed modifications to PNG’s Tariff Gas - Pa. P.U.C. No. 8, to become effective December 1, 2011.

7. PNG’s June 1, 2011 PGC filing proposed to implement a PGC rate of \$6.76/Mcf applicable to rate R customers, and a PGC rate of \$6.73/Mcf applicable to rates N, GL and CIAC customers effective December 1, 2011.

8. PNG also filed the direct written testimony of its supporting witnesses with its PGC filing on June 1, 2011.

9. On June 7, 2011 PNG, CPG and UGI filed a petition for a Protective Order, and on June 15, 2011, a Modified Petition for a Protective Order.

10. On or about June 8, 2011, CenterPoint filed a petition to intervene.

11. On or about June 13 and June 28, 2011, motions to admit Jason F. Leif *pro hac vice* to represent the various members of the Supplier Group were filed.

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<sup>4</sup> The functions of OTS are now performed by the Commission’s Bureau of Investigation and Enforcement, a present signatory to this Stipulation in Settlement.

12. On or about June 14, 2011, the OSBA filed a notice of appearance, formal complaint and public statement, docketed at C-2011-2248229, which PNG answered on June 27, 2011.

13. In Orders issued by the ALJ on June 16 and June 29, 2011, the motions for admission *pro hac vice* were granted.

14. On June 16, 2011, a consolidated Prehearing Conference in the PNG, UGI Central Penn Gas, Inc. ("CPG") PGC proceeding at Docket No. R-2011-2238949 and UGI Utilities, Inc. – Gas Division ("UGI") PGC proceeding at Docket No. R-2011-2238953 was conducted by ALJ Melillo.

15. At the Prehearing Conference, amongst other things, the PNG, CPG and UGI PGC proceedings were consolidated by the ALJ for the limited purposes of hearing; a procedural schedule was adopted and certain discovery response rules were established.

16. In an Order dated June 22, 2011, the ALJ granted the Modified Petition for a Protective Order.

17. Also, in an Order dated June 22, 2011, the petition to intervene of CenterPoint was granted.

18. On or about June 28, 2011, Shipley filed a petition to intervene.

19. On or about June 28, 2011, Rhoads filed a petition to intervene.

20. In an Order dated June 29, 2011, the petitions to intervene of Shipley and Rhoads were granted.

21. On June 30, 2011, PNG filed a motion to consolidate a formal complaint filed by Kathleen Moran-Roberto, and docketed at C-2011-2248372, with the PNG PGC proceeding

since the formal complaint, in part, challenged the proposed Rate GBM (Gas Beyond the Mains) rate transition mechanism proposed by PNG in its 2011 PGC filing.

22. In an Order dated July 6, 2011, that portion of Ms. Moran-Roberto's formal complaint challenging PNG's proposed Rate GBM transition rate mechanism was consolidated with the PNG PGC proceeding, and the remaining portions of her formal complaint were severed to be addressed at a separate docket number (C-2011-2251178) and under a different procedural schedule. It was subsequently agreed that Ms. Moran-Roberto would submit written testimony on July 15 and that PNG could respond to such written testimony on July 25, 2011.

23. In accordance with the procedural schedule established by the ALJ, the OCA, OTS and the Supplier Group filed written direct testimony on July 11, 2011; Ms. Moran-Roberto filed written direct testimony on July 15; PNG, OCA, OTS, OSBA and the Supplier Group filed rebuttal testimony on July 25, 2011; and PNG and the Supplier Group filed surrebuttal testimony on August 3, 2011.

24. 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.

25. On August 5, 2011, PNG notified the ALJ that an agreement in principle of all issues in each of the PNG, CPG and UGI PGC proceedings had been reached and requested a suspension of the procedural schedule.

26. By Order issued August 5, 2011, the ALJ suspended the procedural schedule, but made provision for the conduct of the previously scheduled hearing on August 8, 2011 for the admission of each parties' testimony and exhibits into the record by stipulation at each of the three consolidated dockets.

27. During the August 8, 2011, hearing all of the testimony and exhibits filed in the case, with the exception of Supplier Group Exhibit SG-R5, were offered and admitted into the record by stipulation with accompanying signed affidavits or affirmations of the sponsoring witnesses.

### **III. GENERAL PROVISIONS OF SETTLEMENT**

28. The Parties agree the rates for the recovery of the purchased gas costs of PNG should be revised effective December 1, 2011, subject to updates, to reflect the rates set forth in Appendix A hereto.

29. In its PGC compliance filing in this proceeding, PNG will reflect 500,000 Mcf of annual projected Customer Choice volumes subject to the Migration Rider for the PGC Year beginning December 1, 2011, and will derive its E-Factor and Migration Rider using this 500,000 Mcf projection.

30. PNG will continue to reflect updated annual Customer Choice volumes projected to be subject to the Migration Rider in the "S Factor – Projected Sales" component of its future annual PGC filings.

31. In its PGC compliance filing in this proceeding, PNG will clarify its Tariff language to eliminate all references to Rate GL (Gas Lights) from Rider C, since there is no transportation alternative available for Tariff Rate GL.

32. PNG will maintain the peak day demand numbers as filed in its April 29, 2011 Book 1 filing for the 2011 – 2012 winter season.

33. PNG will modify its design cold temperatures as shown in Appendix B.

34. In calculating the design day requirements for days other than the coldest day, PNG will perform a statistical analysis for each day using weather data for a thirty year period,

updated every five years, consistent with the practice it employed before its Commission-approved settlement of its 2007 PGC proceeding at Docket No. R-00072334.

35. Neither the acceptance by the Parties of PNG's design day demand pursuant to paragraph 32 of this Settlement nor the Commission's approval of this Settlement shall be deemed to indicate approval of the procedures or methodologies used to derive that design day demand, except to the extent necessary to establish PGC rates in this proceeding.

36. PNG will revise its proposed request-for-proposal(s) ("RFP") for peaking service, as initially described in PNG Statement No. 2, to provide potential bidders with four, as opposed to the initially proposed three, weeks to respond. All other provisions of the RFP(s) will be conducted as described in PNG Statement No. 2.

37. PNG's award of the Transco and Tennessee replacement capacity or services through the RFP process described in PNG Statement No. 2 will be subject to review in PNG's 2012 PGC proceeding (including the review of the reasonableness of including in the RFP a potential replacement for the Tennessee capacity identified in PNG Statement No. 2 before notice of cancellation of that contract is required).

38. In its PGC compliance filing, PNG will file tariff sheets to modify its rules applicable to direct assignment options involving bundled sales (initially Options 2 and 4), which will take effect November 1, 2012, as follows:

- a. Instead of making bundled sales on a daily basis to Choice suppliers based on a percentage of that day's Daily Delivery Requirement ("DDR"), PNG will provide Choice suppliers with fixed monthly bundled sale quantities ("MBSQ") during each winter month, and the Choice supplier will be permitted to nominate and purchase gas at PNG city gates throughout each winter month, subject to the maximum daily quantity

("MDQ") limits described in subpart (d) below, up to the MBSQ; and if the full MBSQ is not nominated and purchased by the end of each such winter month, the shortfall ("Bundled Sale Cash-In quantity") will be purchased by the PGC ("Bundled Sale Cash-In amount") as follows:

i. The DDR Variation Percentage is the sum of the actual DDRs experienced by a Choice supplier divided by the sum of the pre-month average DDRs that was used to calculate the MBSQ, converted to a percentage. For any month where the DDR Variation Percentage is greater than ninety percent (90%), the Bundled Sale Cash-In amount will equal (1) the product of (a) 0.90 times the lowest absolute low for the Henry Hub index price as published in *platts' Gas Daily* for the applicable month of flow minus (b) the summer index price used for bundled sales (the "Bundled Sale Cash-In index") times (2) the Bundled Sale Cash-In quantity. If the resulting amount is positive, it will be credited to the Choice supplier, or if negative, will be billed to the Choice Supplier.

ii. In recognition of the effects of extreme warm weather conditions, shortfall amounts will be purchased as follows under such conditions:

A. For any month where (a) the DDR Variation Percentage is less than or equal to ninety percent (90%) and (b) the Bundled Sale Cash-In quantity is less than or equal to the MBSQ minus the product of the DDR Variation Percentage times the MBSQ, then the Bundled Sale Cash-In amount will equal (1) the First of the Month Price called "Transcontinental Gas Pipe Line Corp., Zone 3" as published in *platts' Gas Daily Price Guide ("Inside FERC")* for the month subsequent to the

applicable month in which the cash-in quantity was created minus the summer index price used for bundled sales (the "Alternate Bundled Sale Cash-In Index") times (2) the Bundled Sale Cash-In quantity. If the resulting amount is positive, it will be credited to the Choice supplier, or if negative, will be billed to the Choice Supplier.

B. For any month where (a) the DDR Variation Percentage is less than or equal to ninety percent (90%) and (b) the Bundled Sale Cash-In quantity is greater than the MBSQ minus the product of the DDR Variation Percentage times the MBSQ, then the Bundled Sale Cash-In amount will equal (1) the Alternate Bundled Sale Cash-In Index, as defined in Section 38.a.ii, times the DDR Variation Percentage times the MBSQ plus (2) the Bundled Sale Cash-In Index, as defined in Section 38.a.i, times the difference of the Bundled Sale Cash-In quantity minus the product of the DDR Variation Percentage times the MBSQ. If the resulting amount is positive, it will be credited to the Choice supplier, or if negative, will be billed to the Choice Supplier.

b. Net proceeds related to any Bundled Sale Cash-In activity will be credited/charged to the PGC on a monthly basis.

c. MBSQs will be based on PNG's storage withdrawal plan, to be updated annually, and communicated as a percentage of each Choice Supplier's pre-month normalized delivery requirements. Example percentages of the pre-month normalized delivery requirements for the 2011-2012 season are shown in Appendix C, Exhibit 1,

Table 2 labeled "Must-Take Monthly Bundled Sale Percentage," and are based on PNG's storage withdrawal plan for 2011-2012.

d. Bundled sale MDQs will be determined based on the daily delivery flexibility of PNG's storage assets. Example percentages for the maximum daily quantities are shown in Appendix C, Exhibit 1, Table 3 for the 2011-2012 season. The minimum daily quantity is zero. Correspondingly, the percentage of Choice capacity release associated with firm transportation contracts will be modified based on the impact of changing the daily flexibility of the bundled sales quantity as shown in Appendix C, Exhibit 1, Table 1.

e. Choice suppliers will be required to nominate to PNG a daily quantity for bundled sales no later than 8:45 A.M. Eastern Prevailing Time on each Intercontinental Exchange ("ICE") trading day for deliveries applicable to the ICE flow dates. Choice suppliers will be required to nominate quantities on Friday for flow on Saturday, Sunday and Monday. Choice suppliers will not be required to nominate ratable quantities over the flow days. As applicable, nominations must be made on the last ICE trading day prior to any holiday period. If no nomination is received, the nomination quantity will default to zero.

f. In addition to the bundled sales described above, Choice suppliers will be required to purchase from PNG a separate bundled sale on peak days ("Peaking Sale"). The Peaking Sale will be made on winter days when the Choice supplier's DDR exceeds the sum of the released firm capacity and the MDQ associated with the bundled sale. The Peaking Sale quantity will be the difference between the Choice supplier's DDR minus the sum of the released firm capacity and the MDQ associated with the bundled sale. If

weather conditions cause the Choice supplier's DDR to exceed the Choice supplier's Peak Day Delivery Requirement, the Choice supplier will be responsible for arranging for supplies to meet the additional delivery requirement for its Choice customers. The Peaking Sale price will be based on the variable cost of PNG's peaking services only since the demand charges associated with PNG's peaking service will already be reflected in the weighted average cost of demand charged for firm transportation capacity releases. Appendix C, Exhibit 1, Table 1 shows Peaking Sale as a percent of the Choice supplier's peak day allocation.

g. PNG reserves the right to issue operational flow orders ("OFO") that can modify the daily bundled sale flexibility or require certain levels of deliveries from the released firm transportation contracts. These OFOs would be issued for operational reasons only. For example, an OFO could be issued if the aggregate Bundled Sales to Choice Suppliers during the beginning of the month would cause PNG to lose storage deliverability during the end of the same month.

39. The date by which an existing Choice supplier must notify PNG of its direct assignment option election in advance of each winter season shall be changed to July 15.

40. The rate for PNG mandatory firm transportation capacity releases to Choice suppliers will be maintained at their current level (the weighted average cost of demand for all core market capacity including storage and peaking divided by the percent of firm transportation released when compared to the peak day capacity held for the core market). PNG's existing rules relating to mandatory assignments to Choice suppliers based on the peak day requirements of the Choice customers they serve will also be maintained.

41. PNG will modify its revenue sharing mechanism to provide PNG Choice suppliers with a monthly credit to their direct assigned capacity costs for the period beginning December 1, 2011 through October 31, 2012 equal to the ratio of (a) aggregated Choice supplier customer assigned design day demand to (b) the sum of PGC and Choice supplier customer design day demand, multiplied by (c) the sum of storage asset management revenues and off-system sales margins generated from the use of peaking services not otherwise retained by PNG or the non-Choice transportation customers.

42. The settling Supplier Group participants and their affiliates agree not to file any challenge to PNG direct assignment rules before June 1, 2013 and not to propose any changes to PNG's direct assignment rules that would become effective before November 1, 2014.

43. Unless the Commission orders otherwise in a separate proceeding, PNG's proposed phase-in of propane market pricing for GBM customers will be modified to occur as follows: December 1, 2011 (15%); December 1, 2012 (40%); December 1, 2013 (65%); August 27, 2014 (100%). With the exception of the transition rate plan itself, Ms. Moran-Roberto's agreement to the preceding phase-in shall in no way prejudice her rights or limit her ability to pursue her complaint (in a separate docket) against any other aspect of the GBM program, including, but not limited to: due process issues regarding the notice provided in the most recent PNG base rate case proceeding (Docket No. R-2008-2079660), the legality of discontinuing the GBM program, service quality issues, and main extension issues.

#### **IV. STANDARDS AND FINDINGS**

44. This proceeding involves Commission review 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 PNG may recover for a previous 12-month period under

the standards set forth in Section 1318. In addition, because PNG has filed tariffs proposing new PGC rates, the Commission must determine whether the requirements of Section 1318 can be met. This determination 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, 2011. The new tariff rates are intended to become effective December 1, 2011.

A. Historic Reconciliation Period Standards

45. With respect to PNG's gas purchases and gas purchasing practices during the twelve-month historic reconciliation period ending March 31, 2011, all Parties agree, and request the Commission to find, that PNG 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, 2011, PNG 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 PNG in support of the required statutory findings can be found in the following sections of the PNG 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 2011 PGC Rates:
  - 1. June 1, 2011 Filing, Attachments (1) - (4).
  - 2. June 1, 2011 Filing, "E" Factor Calculations: Filing, Attachment (4).
  - 3. June 1, 2011 Filing, Written Direct Testimony of William J. McAllister.
- H. Reliability (§1317(c)): Prefiling, Section 14.

B. Projected Period Findings

46. With respect to the twelve-month period beginning December 1, 2011, 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 PNG 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. Nevertheless, it is expressly understood and agreed that such findings, relating to the rates to become effective December 1, 2011, 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, 2011 through November 30, 2011, 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.

47. If, in an appropriate future proceeding, gas purchases and gas purchasing practices relating to the period December 1, 2011 through November 30, 2012 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, 2011, except as provided in Section III above.

48. The Parties also agree that future examination of the gas costs relating to the period April 1, 2010 through November 30, 2011 to determine whether PNG'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

49. 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, 2011, 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, 2011, 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.

50. 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.

51. Except as otherwise specifically provided in this Settlement, 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 any position that any Party may adopt in any other proceeding.

52. 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.

53. 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. Except as otherwise specifically provided in this Settlement, the Settlement reflects compromises on all sides, and is presented without prejudice to any position that any of the parties may have advanced and without prejudice to the positions that any of the parties may advance in the future on the merits of the issues.

54. 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, 2011.

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

56. This Settlement may be executed in counterparts.

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

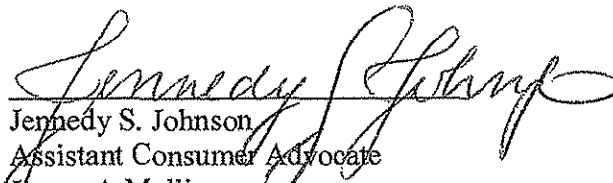
1. That Administrative Law Judge Kandace F. Melillo and the Commission approve this Settlement, including all terms and conditions thereof.

2. That the Commission enter a final Order consistent with this Settlement that: (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 PNG's December 1 PGC compliance filings, and (b) directing PNG to file a final tariff implementing such rates for gas service rendered by PNG on and after December 1, 2011.

4. That the Commission terminate and mark closed its inquiry and investigation at Docket Nos. R-2011-2238943, C-2011-2243199, C-2011-2248229 and C-2011-2248372.

Respectfully submitted,

  
Kennedy S. Johnson  
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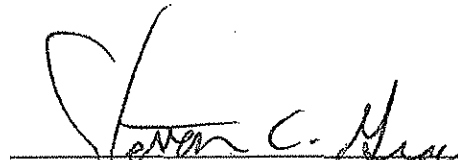
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Counsel for the Supplier Group

Dated: August 23, 2011

  
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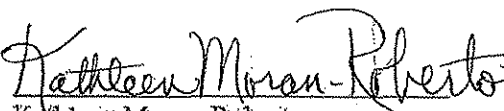
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Dated: August 23, 2011

**APPENDIX A**  
**(PNG Settlement Rates – Subject to Updates)**

UGI Penn Natural Gas, Inc.  
 Computation of the Cost of Gas  
 Applicable to Rates: R, GL, CIAC & N

Schedule A  
 Page 1 of 2  
**SETTLEMENT**

Effective December 1, 2011  
 Computation Year Ending November 30, 2012

C - Projected Cost **	\$ 124,396,580
S - Projected Sales - Mcf **	19,391,399
C / S Projected Cost per Mcf	\$ 6.4150
E - Experienced Cost Rate N & CIAC	\$ (6,694,504)
E - Experienced Cost Rate R & GL	\$ (6,879,605)
E / S Experienced Cost per Mcf Rate N & CIAC *	\$ 0.3067
E / S Experienced Cost per Mcf Rate R & GL *	\$ 0.3456
PGC = (C/S + E/S) @ 12/1/2011 - Proposed Rate N & CIAC	\$ 6.7217
PGC = (C/S + E/S) @ 12/1/2011 - Proposed Rate R & GL	\$ 6.7606
PGC = (C/S + E/S) @ 6/1/2011 - Current Rate N & CIAC	\$ 6.7251
PGC = (C/S + E/S) @ 6/1/2011 - Current Rate R & GL	\$ 6.7640
PGC Change Rate N & CIAC	\$ (0.0034)
PGC Change Rate R & GL	\$ (0.0034)
Residential Heating Percent Change	-0.03%

\* Reflects Migration Rider volumes of 500,000 Mcf

\*\* Excludes GBM Costs and Sales. Please see Schedule A, Page 2 of 2,  
 for the development of the proposed GBM PGC Rate.

UGI Penn Natural Gas, Inc.  
Computation of the Cost of Gas  
Applicable to Rates: GBM

Schedule A  
Page 2 of 2  
SETTLEMENT

Effective December 1, 2011  
Computation Year Ending November 30, 2012

C(GBM) - Projected Cost*	\$	144,970
S(GBM) - Projected Sales (Mcf)		15,997
C(GBM) / S(GBM) Projected Cost per Mcf	\$	9.0626
E(GBM) / S(GBM) Experienced Cost per Mcf (or Gas Cost Adjustment (GCA))	\$	0.3456
PGC(GBM) = (GSC(GBM) + GCA) @ 12/1/2011	\$	<u>9.4082</u>
PGC(GBM) = (GSC(GBM) + GCA) @ 5/1/2011 Current	\$	6.7640
PGC Change Rate GBM	\$	2.6442
GBM Percent Change		22.43%

\* Reflects Settlement Agreement to phase in propane market pricing for GBM customers  
(Year 1: 15% based on propane costs, 85% based on natural gas costs)

UGI Penn Natural Gas, Inc.  
Computation of the Experienced Cost Factor: E  
For the 2011 PGC Year

Effective December 1, 2011  
Computation Year Ending November 30, 2012

REFUND CREDITS

Prior	( Amortized Balance at November 30, 2011)	Schedule C, Page 2	\$ (4,834)
Current	( Twelve Months Ended November 30, 2011)	Schedule C, Page 3	58,170
Interest	( Twelve Months Ended November 30, 2011)	Schedule C, Page 3	4,154

OVER / (UNDER) COLLECTION

Prior	( Amortized Balance at November 30, 2011)	Schedule C, Page 4	(575,300)
Current	( Twelve Months Ended November 30, 2011)	Schedule C, Page 6	(6,380,444)
Interest	( Twelve Months Ended November 30, 2011)	Schedule C, Page 6	18,649

**TOTAL E** \$ (6,879,605)

**TOTAL S (Mcf)** 19,632,396  
**SETTLEMENT Adjustment for Choice Sales Volumes** 275,000  
**SETTLEMENT Sales Volumes** 19,907,396

E/S Refund / (Collection) Rates R & GL \$/Mcf: \$ (0.3456)

Tennessee PCB Refund - Rate N & CIAC

Prior	( Amortized Balance at November 30, 2011)	Schedule C, Page 2A	\$ 69,102
Current	( Twelve Months Ended November 30, 2011)	Schedule C, Page 3	107,307
Interest	( Twelve Months Ended November 30, 2011)	Schedule C, Page 3	8,692

**TOTAL E - Tennessee PCB Refund** \$ 185,101

**TOTAL S - Rates N & CIAC (Mcf)** 4,761,965

E/S Tennessee PCB Refund - Rates N & CIAC \$/Mcf \$ 0.0389

Total E/S Refund / (Collection) for Rates N & CIAC \$ (0.3067)

Note: The Total E/S Refund/(Collection) for Rates N & CIAC includes the sum of the E/S Refund/(Collection) for Rates R & GL applicable to all customers and the E/S Tennessee PCB Refund - Rates N & CIAC applicable only to Rates N & CIAC.

**APPENDIX B**  
**(PNG design cold temperatures)**

UGI Penn Natural Gas, Inc.

Location	Book 1 Attachment 14-2 Pages 1-3	30-year 1975-2004			30-year 1980-2009		
	Design	Normal	Design	%	Normal	Design	%
PNG Scranton/WB	5,938	6,066	5,627	11.1%	5,027	5,565	10.7%

The Normal and Design heating degree day totals for the 30-Year range, 1980 to 2009, are derived by ranking

daily temperatures for each calendar year from lowest to highest.

An average and standard deviation are calculated for the 30 coldest days.

An average and standard deviation are calculated for the 30 2nd coldest days from each calendar year.

This process is repeated 151 times.

The averages for each day, 1 through 151, are then subtracted from 65 to get the heating degree day equivalent.

This provides total heating degree days for the normal winter.

The Design winter heating degree days are derived by taking the standard deviation multiplied by a

95% confidence interval which is 1.645.

The corresponding standard deviation times 1.645 is then subtracted from each 30 year average for days 1 through 151.

This provides the "statistical" design day, which is then subtracted from 65 to get the heating degree day equivalent.

This provides total heating degree days for the design winter.

Please note that the Day 1 design cold temperature/heating degree days are replaced with the temperatures agreed upon from PNG's 2007 PUC settlement.

UGI Penn. Natural Gas, Inc.

Day	PNG System	
	Temp F	HDD
1	-6.0	71
2	-1.7	67
3	1.6	63
4	2.8	62
5	4.8	60
6	5.5	60
7	6.6	58
8	7.7	57
9	8.4	57
10	9.2	56
11	10.2	55
12	10.7	54
13	11.2	54
14	11.7	53
15	12.4	53
16	13.1	52
17	13.5	51
18	14.1	51
19	14.4	51
20	14.9	50
21	15.3	50
22	15.9	49
23	16.3	49
24	16.8	48
25	17.2	48
26	17.5	47
27	17.9	47
28	18.2	47
29	18.5	46
30	19.2	46
31	19.4	46
32	19.4	46
33	19.6	45
34	20.2	45
35	20.8	45
36	20.8	44
37	20.8	44
38	21.5	44
39	21.5	43
40	21.9	43
41	21.9	43
42	22.4	43
43	22.7	42
44	22.9	42
45	23.1	42
46	23.5	42
47	23.6	41
48	23.7	41
49	23.8	41
50	24.3	41
51	24.5	40
52	24.9	40
53	25.4	40
54	25.4	40
55	25.5	39
56	25.6	39
57	26.2	39
58	26.5	39
59	26.8	38
60	27.0	38
61	27.4	38
62	27.6	37

UGI Penn Natural Gas, Inc.

Day	PNG System	
	Temp F	HDD
63	27.9	37
64	27.9	37
65	28.1	37
66	28.1	37
67	28.6	36
68	28.7	36
69	28.8	36
70	29.3	36
71	29.5	36
72	29.7	35
73	29.8	35
74	30.0	35
75	30.2	35
76	30.4	35
77	30.5	34
78	30.5	34
79	30.7	34
80	30.8	34
81	30.9	34
82	31.2	34
83	31.5	34
84	31.8	33
85	32.1	33
86	32.1	33
87	32.1	33
88	32.4	33
89	32.9	32
90	33.2	32
91	33.2	32
92	33.3	32
93	33.4	32
94	33.5	32
95	33.8	31
96	33.9	31
97	34.0	31
98	34.1	31
99	34.4	31
100	34.4	31
101	34.5	30
102	34.7	30
103	34.8	30
104	35.1	30
105	35.2	30
106	35.5	30
107	35.5	29
108	35.7	29
109	35.7	29
110	36.0	29
111	36.2	29
112	36.4	29
113	36.7	28
114	36.7	28
115	37.1	28
116	37.2	28
117	37.3	28
118	37.3	28
119	37.6	27
120	37.8	27
121	38.1	27
122	38.0	27
123	38.2	27
124	38.4	27

UGI Penn Natural Gas, Inc.

Day	PNG System	
	Temp F	HDD
125	38.6	26
126	38.7	26
127	38.8	26
128	38.0	26
129	38.1	26
130	38.3	26
131	38.5	26
132	38.6	25
133	39.7	25
134	40.0	25
135	40.2	25
136	40.4	25
137	40.5	25
138	40.7	24
139	40.9	24
140	41.0	24
141	41.1	24
142	41.8	23
143	41.7	23
144	41.7	23
145	41.8	23
146	41.8	23
147	42.0	23
148	42.1	23
149	42.4	23
150	42.7	22
151	42.6	22

**APPENDIX C**

**(Direct Assignment Information)**

Table 1

	Peak Day Allocation		
	FT Release <sup>1</sup>	Bundled Sale <sup>1</sup>	Peaking Sale <sup>1</sup>
UGI	52%	28%	20%
PNG	35%	56%	9%
CPG	59%	36%	5%

Table 2

	Must-Take Monthly Bundled Sale Percentage <sup>2</sup>				
	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12
UGI	5%	22%	38%	42%	44%
PNG	26%	68%	54%	77%	78%
CPG	18%	33%	55%	52%	44%

Table 3

	Max Daily Bundled Sale Quantity Percentage <sup>3</sup>					
	Nov-11	Dec-11	Jan-12	Feb 1-15, 2012	Feb 16-29, 2012	Mar-12
UGI	15%	100%	100%	100%	75%	65%
PNG	25%	100%	100%	100%	80%	65%
CPG	25%	100%	100%	100%	70%	50%

1. FT Release Quantity = Peak day DDR x FT Release percentage in Table 1  
 Maximum Daily Bundled Sale Quantity = Peak day DDR x Bundled Sale percentage in Table 1  
 Maximum Daily Peaking Sale Quantity = Peak day DDR x Peaking Sale percentage in Table 1
2. Must-Take Monthly Bundled Sale Quantity = Pre-month average DDR x Number of days in month x Percentage in Table 2
3. For each month, the Maximum Daily Bundled Sale Quantity defined in Table 1 is adjusted by multiplying the percentages in Table 3

### Peak Day Allocation

Example based on all Choice Participation as of April 2011

	Peak Day Delivery Requirement (Dth)
UGI	89,002
PNG	21,606
CPG	7,999

	Peak Day Allocation		
	FT Release	Bundled Sale	Peaking Sale
UGI	52%	28%	20%
PNG	35%	56%	9%
CPG	59%	36%	5%

Peak Day Allocation (Dth)				
	FT Release	Bundled Sale	Peaking Sale	Total
UGI	46,281	24,921	17,800	89,002
PNG	7,562	12,099	1,945	21,606
CPG	4,719	2,880	400	7,999

### Must-Take Monthly Bundled Sale Quantity

Example based on all Choice Participation as of April 2011

	Pre-month Average DDR (Dth)				
	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12
UGI	852,610	1,248,134	1,579,340	1,234,434	1,077,080
PNG	175,078	303,822	427,321	325,322	275,781
CPG	51,609	85,541	94,281	96,769	92,225

Table 2

	Must-Take Monthly Bundled Sale Percentage				
	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12
UGI	5%	22%	38%	42%	44%
PNG	26%	68%	54%	77%	78%
CPG	18%	33%	55%	52%	44%

↓

	Must-Take Monthly Bundled Sale Quantity (Dth)				
	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12
UGI	45,800	275,595	596,968	512,296	471,080
PNG	46,015	207,920	231,468	249,847	215,065
CPG	9,362	28,133	51,860	50,355	40,362

### Daily Bundled Sale Flexibility

Example based on all Choice Participation as of April 2011

Table 1

Peak Day (Dth)		Peak Day Allocation		
		FT Release	Bundled Sale	Peaking Sale
UGI	89,002		28%	20%
PNG	21,606		56%	9%
CPG	7,999		36%	5%

Table 3

	Max Daily Bundled Sale Quantity Percentage					
	Nov-11	Dec-11	Jan-12	Feb 1-15, 2012	Feb 16-29, 2012	Mar-12
UGI	15%	100%	100%	100%	75%	65%
PNG	25%	100%	100%	100%	80%	65%
CPG	25%	100%	100%	100%	70%	50%

	Maximum Daily Bundled Sale Quantity (Dth)					
	Nov-11	Dec-11	Jan-12	Feb 1-15, 2012	Feb 16-29, 2012	Mar-12
UGI	3,738	24,921	24,921	24,921	18,690	16,198
PNG	3,025	12,099	12,099	12,099	9,679	7,865
CPG	720	2,880	2,880	2,880	2,016	1,440

**APPENDIX D**

**(PNG Statement in Support)**

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY	:	
COMMISSION, ET AL.	:	
	:	Docket Nos. R-2011-2238943
v.	:	C-2011-2243199
	:	C-2011-2248229
UGI PENN NATURAL GAS, INC.	:	C-2011-2248372

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**UGI PENN NATURAL GAS, INC. STATEMENT  
IN SUPPORT OF STIPULATION IN SETTLEMENT OF  
SECTION 1307(f) RATE INVESTIGATION**

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TO ADMINISTRATIVE LAW JUDGE KANDACE F. MELILLO:

**I. INTRODUCTION**

UGI Penn Natural Gas, Inc. (“PNG” or the “Company”) hereby submits this Statement in Support of the Stipulation in Settlement of Section 1307(f) Rate Investigation (“Settlement”) entered into by PNG, Bureau of Investigation and Enforcement (“BI&E” or, prior to August 11, 2011, the Bureau of Investigation and Enforcement (“BI&E”) of the Pennsylvania Public Utility Commission (“Commission”), the Office of Consumer Advocate (“OCA”), the Office of Small Business Advocate (“OSBA”), CenterPoint Energy Services, Inc. (“CenterPoint”), Jerome H. Rhoads, Inc. d/b/a Rhoads Energy Corporation (“Rhoads”) and Shipley Energy Company with Shipley Choice LLC (collectively, “Shipley” and in combination with CenterPoint and Rhoads collectively the “Supplier Group”), and Kathleen Moran-Roberto.<sup>1</sup> The Settlement has been entered into or not opposed by all parties and resolves all issues in this proceeding.

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<sup>1</sup> In addition, the Procter & Gamble Paper Products Company (“P&G”), the only other party in this proceeding, has indicated that it does not oppose the Settlement.

PNG believes that this Settlement is in the best interests of PNG, 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 PNG's gas procurement practices. PNG responded to approximately 178 formal discovery requests, many of which had multiple subparts. Parties also filed multiple rounds of testimony, including PNG's direct; BI&E, OCA, Supplier Group and Kathleen Moran-Roberto direct testimony; PNG, OCA, BI&E, OSBA and Supplier Group rebuttal testimony; and PNG and Supplier Group 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. Migration Rider**

The development of the E-Factor component of PNG's projected PGC rates is shown on Schedule C, page 1, of PNG's June 1, 2011 Book 2 filing. As that schedule shows, the E-Factor unit rate was determined by dividing total undercollections and interest by projected sales for the twelve-month period ending November 30, 2012. See also PNG Statement No. 1, page 9, lines 6-10.

On pages 4-5 of BI&E Statement No. 1, BI&E witness Emily Sears argued that for the purpose of calculating the E-factor for the twelve month period ending November 30, 2012, the total projected sales should include volumes associated with Choice customers who migrate to alternate suppliers, but who still pay the migration rider for the

first twelve months after they leave PGC service. She also claimed that PNG failed to include such volumes.

In his rebuttal testimony, PNG witness William J. McAllister agreed that customer Choice volumes subject to the migration rider should be included in projected sales when computing the E-Factor rate, noted that 225,000 Mcf of such volumes had been included in the projected sales used to develop the E-Factor in Schedule C, and asserted that PNG had updated its projections of customer Choice volumes subject to the migration rider during the twelve month period ending November 30, 2012 to 500,000 Mcf. PNG Statement No. 1-R, p. 2, line 18 through p. 3, line 4.

The Settlement fairly resolves this issue by providing that PNG will use its revised 500,000 Mcf projection in developing its E-Factor, and will also continue to consider customer Choice volumes subject to the migration rider in developing the E-Factor in future PGC filings.

**B. Tariff Clarification**

In his rebuttal testimony, Mr. McAllister noted that the BI&E had called to his attention that the PNG proposed tariff addendum, filed with its June 1, 2011 Book 2 filing, contained a migration rider charge for Rate GL (Gas Lights), even though that rate has no transportation alternative to which a migration rider could apply, and that PNG would remove this Rate GL migration rider reference its compliance filing in this proceeding. UGI Statement No. 1-R, p. 3, lines 9-15. The Settlement (par. 30) reflects this commitment.

**C. Peak day Forecast**

On pages 4 through 7 of his direct testimony, OCA witness Jerome D. Mierzwa described his attempt to model PNG's peak day requirements, concluded that peak day

requirements are not declining due to customer conservation, and recommended that PNG modify its design peak day forecasting procedures to reflect the conservation efforts of its customers.

In his rebuttal testimony, PNG witness David C. Beasten noted a number of flaws in Mr. Mierzwa's analysis, including the failure to consider the transitory effects of a significant recession, significant evidence of customer demand growth fueled by conversions to gas caused by the recent divergence of oil and gas prices and the resumption of more normal growth, recent increased economic activity in PNG's service territory caused by Marcellus Shale development and the statistical imprecision associated with the limited analysis performed. PNG Statement No. 2-R, pp. 2-10.

The Settlement fairly resolves this issue by permitting PNG to maintain the peak day demand numbers as filed in its April 29, 2011 Book 1 filing for the 2011 – 2012 winter season, while leaving open the possibility of future adjustments in subsequent PGC proceedings as more experience is gathered (par. 31). Paragraph 34 of the Settlement further emphasizes that approval of the settlement will not indicate any Party's or the Commission's acceptance of the methodology used to calculate the levels of capacity utilized to establish PGC rates in this proceeding.

**D. Design Cold Temperatures Other Than Peak Day**

On pages 8 through 10 of his direct testimony, Mr. Mierzwa reviewed how PNG calculated the non-peak day winter season requirements of its core market customers, concluded that this methodology resulted in planning for a winter about twenty-five percent (25%) colder than normal, reviewed the thirty-year average and coldest winters in the four locations used to compute the seasonal requirements for PNG's service territory,

and concluded that PNG should only plan for winter seasons about ten percent colder than normal.

In his rebuttal testimony, Mr. Beasten argued that PNG's method of calculating seasonal requirements was consistent with the methodology adopted in PNG's 2007 PGC proceeding to compute the peak day requirements of PNG's service territory, and noted the potential costs and reliability risks if PNG did not have sufficient gas supply assets in place to meet seasonal requirements. PNG Statement No. 2-R, p. 11.

Under paragraphs 32 and 33 of the Settlement, PNG has agreed to utilize the design temperature profile shown in Appendix B to the Settlement for the 2011-2012 winter season, and to calculate seasonal design temperatures for future winter seasons utilizing the statistical methodology show on page one of Appendix B, which is consistent with the methodology PNG utilized prior to its 2007 PGC settlement. As shown on page one of Appendix B, this methodology would result in planning for a winter season about eleven percent (11%) colder than normal. This is fair resolution of this issue that strikes an appropriate balance between security and least cost.

#### **E. RFP Revisions**

On pages 5-12 of his direct testimony, Mr. Beasten described requests for proposals ("RFP") PNG plans to issue to evaluate potential replacements for three Tennessee Gas Pipeline Company ("Tennessee") firm transportation ("FT") set to expire on November 1, 2015, and two Transcontinental Gas Pipe Line Company ("Transco") FT contracts set to expire on July 31, 2014. Amongst other things, Mr. Beasten noted that the RFP(s) to evaluate potential replacements for the peaking contracts would be issued in the summer of 2011 (PNG Statement No. 2, p. , line 8), and would seek a five to ten

year term (PNG Statement No. 2, p. 7, lines 21-23). Bidders in each of the RFP's would have three weeks to respond (PNG Statement No. 2, p. 7, lines 8-9).

In his direct testimony, Mr. Mierzwa argued that the quantities of service requested in the RFPs should be adjusted to reflect his proposed peak day and seasonal requirements adjustments, and argued that bidders in the RFP potential replacements to the peaking contracts should be afforded one year to respond. OCA Statement No. 1, pp. 11-13.

In his rebuttal testimony Mr. Beasten noted, apart from his concerns about Mr. Mierzwa's peak day and seasonal requirements recommendations, that extending the RFP response time to one year would likely lead to fewer, and not more, offers since potential bidders were already well aware of PNG's expiring contracts, and extending the response time to one year would not leave sufficient time for a potential bidder wishing to construct facilities to provide a replacement service with sufficient time after the completion of the RFP to complete the construction (PNG Statement No. 2-R, p. 12-13).

The Settlement provides that potential bidders will have four weeks to submit proposals to the proposed RFP (par. 35), and that all Parties reserve their rights to review the RFP results in PNG's 2012 PGC proceeding, including the decision to explore, through the RFP process, potential replacements for the Tennessee FT contracts even though they will not expire until 2015 (par. 36). The RFP process will otherwise be conducted as proposed by PNG (par. 35).

These Settlement revisions fairly resolve the disputes over PNG's proposed RFPs and should be approved.

## **F. Supplier Group Issues**

In his direct testimony Supplier Group witness James L. Crist recommended that (1) capacity assigned by PNG to Choice suppliers should include all interstate pipeline and storage capacity, (2) the price charged for such assigned capacity should be at the contract rate for the capacity, and not the weighted average costs of PGC capacity, (3) the amount of capacity assigned should be based on the amount of capacity used by the Choice customers served by the Choice supplier during an average day during the coldest month as opposed to the peak day requirements of such Choice customers, (4) assignments to Choice suppliers should be voluntary, and (5) Choice customers should receive a share of the seventy-five percent (75%) of off-system sales revenues currently flowed back to PGC customers. Supplier Group Statement No. 1, p. 5-6. Mr. Crist also compared PNG's Choice program to those of Columbia Gas, Equitable Gas, National Fuel Gas and PECO and found those programs to have "superior" capacity assignment rules. Supplier Group Statement No. 1, pp. 27-30.

In his rebuttal testimony PNG witness Shaun M. Hart noted, amongst other things, that: (1) PNG cannot release peaking contracts and under FERC rules cannot release certain so-called section 7(c) contracts, including storage contracts (PNG Statement No. 3-R, pp. 8-10), (2) PNG could not fulfill its statutory supplier-of-last-resort ("SOLR") obligations if it released storage contracts to Choice suppliers since there are no statutory or regulatory mechanisms or contract terms that could ensure that storage inventories would be present in the event PNG had to re-call the storage contracts to perform its SOLR obligations, nor could PNG be assured of being able to find replacement supplies on design cold days in its market area (PNG Statement No. 3-R, pp. 12-16), (3) Mr. Crist's proposals to release capacity at contract rates (PNG Statement No.

3-R, pp. 23-25), make releases voluntary (PNG Statement No. 3-R, pp. 28-29), or to release capacity on average monthly, rather than peak day, basis (PNG Statement 3-R, pp. 26-28) would result in impermissible cost shifting and be unfair to PGC customers (see 66 Pa.C.S. § 2203(4)), and (4) that the sharing of off-system revenues would be unnecessary because Choice suppliers will be able to maximize the value of capacity released to them in secondary markets and retain 100% of proceeds of such activities (PNG Statement No. 3-R, pp. 29-30). Mr. Hart also showed that the capacity release provisions of other NGDCs in the eastern part of Pennsylvania deemed superior by Mr. Crist also do not provide for the release storage capacity to Choice supplier, and instead the NGDCs retain storage assets and use them to provide balancing services, the costs of which are recovered from tariff charges (PNG Statement No. 3-R, pp. 16-21).

In their rebuttal testimonies Mr. Mierzwa, BI&E witness Michael J. Gruber and OSBA witness Robert D. Knecht also raised concerns about some or all Mr. Crist's proposals. Notably, however, Mr. Mierzwa expressed some support for sharing some portion of the seventy-five percent (75%) of off-system sales margins with Choice suppliers if they were not provided access to storage or peaking assets (OCA Statement No. 1-R, p. 7), as did Mr. Knecht (OSBA Statement No. 1, p. 9).

Under the Choice supplier capacity release provisions approved in PNG's 2010 PGC proceeding, following a phase-in period, beginning November 1, 2012, Choice suppliers could elect to either receive a release of firm transportation ("FT") capacity equal to the peak day requirements of their Choice customers ("Option One"), or elect to receive a lesser assignment of "FT" capacity and receive bundled city gate sales on a daily basis to cover the difference between their FT supplies and the Daily Delivery

Requirements of their Choice customers at summer index prices (“Option Two”). Under Option Two, Choice suppliers would thus receive the seasonal benefits of acquiring winter supplies at summer prices, while preserving the ability of PNG retain storage and peaking assets to meet its SOLR obligations in a reliable manner given market conditions in the eastern part of the Commonwealth.

Under the Settlement, beginning November 1, 2012, PNG’s Option Two rules will be modified to provide additional flexibility to Choice suppliers while still preserving the ability of PNG to meet its SOLR obligations. Specifically, Choice suppliers will be provided with a bundled sale quantity on a monthly basis, based on the projected usage of their Choice customers under normal weather conditions, and will have the additional flexibility of deciding when they want to receive these bundled sales quantities throughout the month. In the event of colder than normal weather, PNG would make additional bundled city gate sales at summer index prices. Bundled sales quantities not taken during a month would be purchased by the PGC at an index price that would encourage Choice suppliers to take delivery of all their bundled city gate quantities during a month, and thus permit PNG to adhere to its storage inventory drawdown schedule, or at a secondary index price for the portion of reduced city gate purchases related to the weather if significantly warmer weather than normal prevails. PNG has also agree to move the date by which Choice Suppliers have to make their election between Option One and Option two to July 15. The net effect of these Settlement provisions is to provide Choice suppliers with even more flexibility, while preserving the ability of PNG to (1) meet its SOLR obligations, (2) avoid cost shifting and (3) handle its inability to release certain peaking services and section 7(c) contracts.

Since Choice suppliers will, beginning November 1, 2012, be receiving enhanced benefits supported by PGC assets whose costs they contribute to through capacity releases at the weighted average cost of PGC assets, the Settlement does not provide for any sharing of off system sales margins generated by PGC assets on or after November 1, 2012. However, since Choice suppliers will be receiving less benefit from bundled city gate sales supported by PNG PGC assets before that date, the Settlement provides for a proportionate sharing between Choice suppliers and PGC customers of the seventy-five percent (75%) off-system sales margins generated from storage and peaking assets that would normally flow exclusively to the PGC for the period of December 1, 2011 through October 31, 2012.

These Settlement terms provide for a fair resolution of the concerns of the Supplier Group while preserving reliability and avoiding cost shifting, and should be adopted.

**G. Kathleen Moran-Roberto Issues**

In her direct testimony, Ms. Moran-Roberto expressed concern, amongst other things, about phasing in propane pricing before the Commission completes its informal Gas-Beyond-The Mains (“GBM”) investigation. Moran-Roberto Direct Testimony, pp. 5-6.

In his rebuttal testimony, Mr. Hart expressed sympathy with the concern that the Commission’s GBM investigation is not yet completed, but noted that the transition to market-based propane pricing for long-term GBM customers was nonetheless appropriate because even if the Commission approves the continuation of GBM service on PNG’s system, it will still most likely require a means of ending propane cost recovery through PGC rates for long-term GBM customers who are unlikely to be served with natural gas,

and further delaying the phase-in could lead to excessively large percentage increases in the PGC rates of GBM customers in the period leading up to August of 2014. PNG Statement 3-R, pp. 30-33.

The Settlement fairly resolves this issue by modifying the proposed phase-in of propane pricing as follows: December 1, 2011 (15%); December 1, 2012 (40%); December 1, 2013 (65%); August 27, 2014 (100%). The Settlement also provides that Ms. Moran-Roberto's acceptance of the modified phase-in schedule "shall in no way prejudice her rights or limit her ability to pursue her complaint (in a separate docket) against any other aspect of the GBM program, including, but not limited to: due process concerns regarding the notice provided in the most recent PNG base rate case proceeding (Docket No. R-2008-2079660), the legality of discontinuing the GBM program, service quality issues, and main extension issues."

These settlement terms are a fair resolution of this issue since it strikes an appropriate balance between Ms. Moran-Roberto's desire to delay the phase-in while waiting for Commission action in the GBM investigation or on her complaint(s) at a separate docket, and the desire of PNG to begin an orderly phase-in of propane pricing before the current August 2014 deadline for terminating propane cost recovery through the PGC.

### III. CONCLUSION

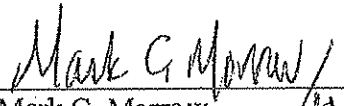
As explained above, the Settlement is in the public interest and should be approved. The Settlement was achieved only after considerable investigation of PNG's gas procurement practices, through both discovery and submission of testimony by a number of Joint Petitioners in this proceeding. The Settlement, 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 PNG 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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(610) 768-3628

Counsel for UGI Penn Natural Gas, Inc.

Dated: August 23, 2011

**APPENDIX E**  
**(OTS Statement in Support)**



1. On June 1, 2011, PNG filed copies of its definitive filing under Section 1307(f) of the Public Utility Code and said Commission regulations. This definitive filing proposes no change to the Company's existing Section 1307(f) rate placed into effect on June 1, 2011. On May 3, 2011, OTS filed its Notice of Appearance.

2. The subject filing was docketed by the Commission and assigned to Administrative Law Judge Kandace F. Melillo ("ALJ" or "ALJ Melillo"). On June 6, 2011, the ALJ issued a Prehearing Conference Order directing the submission of a prehearing conference memorandum by each party and establishing other parameters for the conduct of the Prehearing Conference. Upon subsequent request of OTS counsel, ALJ Melillo moved the previously established Prehearing Conference date to the later date of June 16, 2011.

3. Thus, on June 16, 2011, ALJ Melillo conducted a consolidated Prehearing Conference and subsequently issued an Order officially consolidating the cases of the three (3) affiliated UGI Companies - the instant PNG proceeding; the UGI Central Penn Gas, Inc. proceeding at Docket No. R-2011-2238949 and the UGI Utilities, Inc. - Gas Division proceeding at Docket No. R-2011-2238953, for purposes of hearing, but did not consolidate them for purposes of testimony, briefing, settlement petitions or a decision. The ALJ granted a petition to intervene at this docket filed by Procter & Gamble, a large industrial customer of PNG. The ALJ also granted petitions to intervene at this and the other two UGI related Section 1307(f) proceedings filed by CenterPoint, a licensed

natural gas supplier in the Commonwealth of Pennsylvania that offers service to customers in the service territory of the UGI Companies.<sup>2</sup>

4. On June 22, 2011, ALJ Melillo issued an Order Granting Amended Petition for Protective Order wherein the ALJ concluded that that the issuance of a protective order providing for greater restrictions as to “highly confidential” competitive information has been justified as being necessary to avoid “severe and extreme prejudice.” That same date, a Protective Order was issued, as was issued last year in these cases, to provide for the sought after higher level of confidential protection.

5. OTS and the other active parties to this proceeding served several sets of interrogatories to PNG and timely responses were provided. Settlement discussions were held among the active parties regarding this and the other two proceedings. Those discussions eventually produced an agreement in principle on all issues among all parties to this proceeding and the parties informed the ALJ of that development.

6. On August 5, 2011, the ALJ issued an Order Modifying Procedural Schedule and Providing for Settlement Procedures that accepted the parties proposal to submit a settlement document by the close of business on August 23, 2011.

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<sup>2</sup> ALJ Melillo’s Procedural Order issued June 22, 2011, listed the following matters addressed at the Prehearing Conference: (1) identification of the UGI Companies’ filings; (2) consolidation of proceedings; (3) petitions to intervene; (4) admission pro hac vice of Jason F. Leif; (5) use of color coding for witness statements and briefs; (6) procedural schedule; (7) coordination of witnesses; (8) service requirements and parties list; (9) transcript turnaround; (10) need for public input hearings; (11) discovery modifications; and (12) need for a more restrictive protective order. Order, p. 2.

7. On August 8, 2011, ALJ Melillo conducted a consolidated evidentiary hearing at which time the OTS testimonies at this docket were offered and admitted into the record by stipulation of the parties.<sup>3</sup>

8. Along with the other terms and conditions to the settlement agreed to by PNG to settle these this particular proceeding are provisions of particular interest to BI&E whereby PNG has agreed that in its PGC compliance filing in this proceeding, it will now reflect 500,000 Mcf of annual projected Customer Choice volumes subject to the Migration Rider for the PGC Year beginning December 1, 2011, and will derive its E-Factor and Migration Rider using that 500,000 Mcf projection. Stipulation, paragraph 28. Also, in its PGC compliance filing in this proceeding, PNG will clarify its Tariff language to eliminate all references to Rate GL (Gas Lights) from Rider C, since there is no transportation alternative available for Tariff Rate GL.

9. Also of particular importance is the resolution by settlement of a gas beyond the mains ("GBM") issue raised by a Complainant whereby PNG agrees to modify its initially proposed phase-in of propane market pricing for GBM customers so that it will now be definitively authorized, established and implemented as a result of this proceeding as follows: December 1, 2011 (15%); December 1, 2012 (40%); December 1, 2013 (65%); August 27, 2014 (100%).

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<sup>3</sup> OTS Statement No. 1, the Direct Testimony of Emily Sears, OTS Statement No. 2-R, the Rebuttal Testimony of Michael Gruber, and OTS Statement No. 3-R, the Rebuttal Testimony of Joseph Kubas had been previously distributed to the ALJ and the parties during the proceeding. Signed affirmations of all three witnesses accompanied their respective testimony introduced and admitted into the record at the hearing.

10. Based upon BI&E's analysis, acceptance of this proposed settlement is in the public interest for the following additional reasons:

a. Resolution of this case by settlement rather than litigation will avoid the substantial time and expense involved in continuing litigation of the issues in this proceeding. Specifically, this settlement has already eliminated the need for the cross-examination of witnesses, and has negated the need for the preparation of main briefs, reply briefs, exceptions and reply exceptions, and potential appeals on matters contained in the settlement petition. BI&E respectfully submits that the avoidance of further and unnecessary rate case expense by settlement of this case serves the interests of both PNG and its customers.

b. BI&E agrees after review of the filing and extensive discovery and settlement discussions that the purchased gas cost recovery rates contained in the settlement are fair and reasonable. BI&E represents that the natural gas costs that PNG incurred during the historic period adhered to a least cost fuel procurement policy. A demonstrated least cost procurement policy benefits ratepayers as it ensures that the Company obtains gas at the most advantageous and available prices.

c. BI&E has concluded its analysis of the Company's E-factor and has determined that, consistent with the terms and conditions of the foregoing Stipulation, the resulting E-factor is calculated in accordance with established Commission practices. The E-Factor represents the interest associated with over-collection or

under-collection of revenue based on the cost of purchased gas. The proper calculation of the E- Factor protects ratepayers by ensuring that the rates are adjusted appropriately to reflect the impact that these charges have on purchased gas costs.

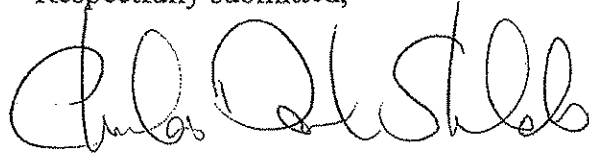
d. BI&E have reviewed the Company's projected gas costs and determined that they are reasonable projections. We note that the experienced costs are subject to review in a future Section 1307(f) proceeding and, as such, ratepayers are protected in that PNG gains no unwarranted financial advantages through its projected gas purchases and projected gas purchasing policies.

e. Commission acceptance of this settlement does not preclude future Commission investigation and/or litigation of PNG's fuel procurement policies, in accordance with the Commission's obligations mandated by 66 Pa.C.S. 1307(d) and (f) and other pertinent law.

f. The settlement establishes terms and conditions that BI&E considers to be in the public interest. However, in the event this matter proceeds to full litigation, BI&E is prepared to take positions that may differ from the terms of this settlement.

**WHEREFORE**, for the reasons set forth above, the Bureau of Investigation and Enforcement respectfully requests that Administrative Law Judge Mellilo and the Commission approve the Stipulation in Settlement of Section 1307(f) Rate Investigation in this present proceeding involving UGI Penn Natural Gas, Inc.

Respectfully submitted,



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Dated: August 23, 2011

v

**APPENDIX F**  
**(OCA Statement in Support)**

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2011-2238943
	:	
UGI Penn Natural Gas, Inc.	:	

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STATEMENT OF THE  
OFFICE OF CONSUMER ADVOCATE  
IN SUPPORT OF SETTLEMENT

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

I. INTRODUCTION

On April 29, 2011, pursuant to Sections 53.64 and 53.65 of the Commission's Rules and Regulations, UGI Penn Natural Gas, Inc. (PNG or Company) submitted its pre-filing information in support of its annual reconciliation of purchased gas cost (PGC) rates. PNG's pre-filed information did not indicate the anticipated effect of the annual PGC reconciliation on existing rates. On May 11, 2011, 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, 2011, the Company made its definitive filing. The Company proposed a PGC rate of \$6.7640 per Mcf for Rates R & GL customers and \$6.7251 per Mcf for N & CIAC customer.

On June 16, 2011, 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 PNG. On July 11, 2011, the OCA submitted the Direct Testimony of Jerome D. Mierzwa. That testimony set forth the OCA's recommendations as to: 1) PNG's design peak day demand, 2) PNG's design cold conditions, and 3) PNG's proposal to issue RFPs for replacement interstate pipeline capacity. On July 25, 2011, the OCA also submitted the Rebuttal Testimony of Mr. Mierzwa. This testimony solely addressed the interstate pipeline capacity release and assignment provisions of PNG's customer choice program.

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.

### Design Peak Day Demand

In his Direct testimony, OCA witness Mierzwa expressed his concerns as to the Company's design peak day demand. OCA St. 1 at 4-7. Specifically, Mr. Mierzwa stated that

his analysis of the design peak day demand of PNG's customers indicated that those demands are not increasing as the Company contends, resulting in an overstatement by the Company of the design day projections for both 2011 and for future periods beyond the 2011-2012 winter season. Id. at 6-7. Mr. Mierzwa recommended that PNG modify its design peak day forecasting procedures to reflect the conservation efforts of its customers and modify its contracting decisions accordingly.

The Settlement addresses this issue in Paragraph 34, which states that the Company will perform a statistical analysis of its design day requirements for each day using a thirty-year period, updated every five years. Settlement at ¶ 34. The Settlement terms address the OCA's concerns regarding design peak day as it requires the Company to perform statistical analyses using updated data to eliminate overstatement of design day projections.

#### Design Cold Provisions

In his Direct testimony, Mr. Mierzwa expressed his concerns that the design cold conditions utilized by PNG are too extreme (cold) and are, therefore, unreasonable. OCA St. 1 at 8-11. PNG's design cold conditions represent a winter which is 25 percent colder than average winter temperatures. Id. at 10. Mr. Mierzwa recommended that PNG use a winter season which is 10 percent colder than average for its winter season capacity planning purposes. Id. at 10. He stated that use of 10 percent colder than average conditions is consistent with the planning assumptions used by many other NGDCs, and is consistent with PNG's actual experience. Id.

Under the proposed Settlement, PNG would adopt a new statistical procedure to calculate the design cold winter it uses for seasonal capacity planning purposes. Settlement at ¶ 33. That procedure is described in detail in Appendix B and results in the use of a winter which is, on average, 10.7 percent colder than normal. This design cold winter is more reasonable than

the 25 percent colder than normal design winter PNG had been using for seasonal capacity planning purposes. The new design cold winter planning assumption will reduce the amount of winter season capacity required by PNG in the future, allowing PNG to reduce its capacity requirements in future PGC periods.

#### Pipeline Contracting Issues

The final issue addressed by Mr. Mierzwa in his Direct Testimony dealt with PNG's proposal to issue RFPs for replacement capacity. OCA St. 1 at 11-13. Mr. Mierzwa had the following concerns: (1) PNG's replacement contract quantities were, as explained above, based on its overstated design peak day and extreme winter season demand forecasts, and (2) the RFP process was proposed to be conducted too early (with respect to the replacement of the peaking services) and with an unnecessarily limited response time. Id. at 12-13.

Settlement Paragraphs 36 and 37 address the OCA's concerns in great length. The Settlement provides that, if it is determined that PNG's design peak day capacity is overstated, a portion of the contract quantities could be eliminated. Settlement at ¶ 37. Further, the settlement requires PNG to demonstrate through the RFP process that, if the Company ever increases its no-notice service beyond existing amounts, it must establish that the no-notice service is the least cost. Id. Finally, bidders will receive an extra week to submit their RFPs. Settlement at ¶ 36.

#### Supplier Group Issues

In his Rebuttal testimony, Mr. Mierzwa addressed Supplier Group witness Crist's testimony regarding interstate pipeline capacity release and the assignment provisions of PNG's customer choice program. OCA St. 1-R at 1-7. Mr. Mierzwa had the following concerns with the Supplier Group testimony: (1) the proposal regarding direct assignment of storage capacity

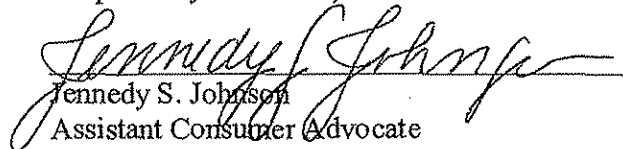
lacked the specificity required to ensure that impermissible cross-subsidization would not result; (2) the proposal regarding the pricing of released or assigned capacity was not consistent with the Commission's Competitive Markets Order; (3) the recommendation that choice suppliers only be assigned capacity sufficient to meet demands on an average day in January could result in inappropriate shifting of costs to PGC customers; and (4) the proposal that the release and assignment of pipeline capacity be voluntary is also inconsistent with the Commission's Competitive Markets Order. Id.

Settlement Paragraphs 38 to 42 focus on the Supplier Group's issues. These provisions address direct capacity assignment, notice dates for assignment capacity elections, capacity release rates, and revenue sharing. Settlement at ¶¶ 38-42. These provisions ensure that PGC customers will not experience higher rates due to PNG's efforts to accommodate suppliers and shopping customers on its system. Further, Paragraph 42 states that the Supplier Group participants and their affiliates will not challenge PNG'S direct assignment rule prior to June 1, 2013 and will not propose changes that would become operative before November 1, 2014. Settlement at ¶ 42. The OCA submits that these provisions are in the public interest and satisfy the OCA's concerns.

### 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,



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**APPENDIX G**  
**(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 the Company's small business customers.

1) **Design Day Methodology** – In his rebuttal testimony, OSBA witness Robert D. Knecht discussed the issue of design day methodology, as follows:

One aspect of my investigation in this proceeding involved a review of the design day forecasting methodology for PNG and its affiliates, UGI Utilities Inc. (Gas Division) ('UGI Gas') and UGI Central Penn Gas, Inc. ('CPG'). In its most recent base rates proceeding, CPG relied substantially on Commission approval of a design day demand forecast in a prior Section 1307(f) proceeding for developing allocation factors in its cost of service study ('COSS'). If PNG and its affiliates are going to rely on such Commission approvals from Section 1307(f) proceedings for developing rate class allocation factors in base rates proceedings, it becomes necessary for parties to evaluate class-specific implications of those estimates in these proceedings, where the underlying methodology can be more carefully evaluated. However, based on the lack of class-specific information available to me at present, I conclude that the Commission should give no weight to the Company's design day demand forecast from this proceeding in developing demand allocation factors in a future base rates proceeding.

OSBA Statement No. 1, at 1-2.

Moreover, the OSBA submitted a series of interrogatories to the Company in regard to the Company's design day methodology. *Id.*, at 1.

The *Stipulation* addresses this issue by assigning no precedential value to the design day forecast methodology used in this proceeding to establish the PGC rates. *Stipulation*, at Paragraph 35. *See also, Stipulation*, Paragraph 52. Consequently, in any future base rates proceeding, the Company will not be able to rely on this settlement for developing design day demand allocation factors. Instead, the Company will be required to make an affirmative

defense of its methodology in that proceeding. Thus, under the *Stipulation*, the OSBA will be able to fully evaluate the Company's design day forecast methodology and associated allocation factors in future Section 1307(f) and base rates proceedings.

**2) Supplier Group Issues** – This PGC proceeding involved considerable controversy regarding the Company's assignment of upstream pipeline, storage, and peaking capacity to retail Choice suppliers. As Mr. Knecht explained, mandatory assignment of upstream capacity may be necessary to avoid burdening the Company's sales customers with stranded capacity costs associated with customer migration to Choice service. OSBA Statement No. 1, at 2-3 ("The costs for this excess capacity (also known as 'stranded capacity') would then be borne by the remaining SOLR [supplier of last resort] customers, driving up the NGDC's purchased gas cost ('PGC') rates, and exacerbating the problems associated with the migration to competitive supply.").

**A. Existing/Proposed Tariffs**

Under the Company's existing tariff, effective November 1, 2012, upstream capacity will be assigned in one of two ways. First, sufficient pipeline capacity will be assigned to each Choice supplier to meet its customers' peak demands. Second, pipeline capacity will be assigned to each Choice supplier to meet 65 percent of the Company's design day demands. For the other 35 percent, the Company will make winter sales to the Choice suppliers at average summer purchase prices. Under either capacity assignment approach, the Choice supplier will pay the weighted average cost of upstream transportation, storage, and peaking capacity. Supplier Group Statement No. 1, at 6-8. *See also*, PNG Tariff, Section B(7), at 93(b) – 93(c).

## **B. Supplier Group Proposal**

The Supplier Group presented a set of alternative proposals which involved: (a) the assignment of transportation, storage, and peaking capacity to Choice suppliers; (b) the pricing of assigned capacity based on actual assigned capacity rather than all capacity; (c) the assignment of capacity based on average January day demand rather than peak day demand; (d) the assignment of capacity on a voluntary rather than mandatory basis; and (e) the sharing of all off-system sales and capacity release revenues with Choice suppliers as well as PGC customers. *See* Supplier Group Statement No. 1, at 5-6.

## **C. OSBA Position**

In rebuttal, Mr. Knecht acknowledged that, in theory, the assignment of all types of upstream capacity would be beneficial to competition. However, he detailed the reasons why such assignment was impractical, and explained why the Supplier Group's proposal was not sufficiently detailed to be adopted in this proceeding. OSBA Statement No. 1, at 4-5.

Regarding the pricing of assigned capacity, Mr. Knecht did not object to the Supplier Group's proposal, but he noted that it might not work to the Choice supplier's advantage. OSBA Statement No. 1, at 6.

Regarding the amount of capacity to be assigned, Mr. Knecht explained that capacity assignment should be consistent with the obligations of the Choice suppliers under the Company's plan. Mr. Knecht also explained why the Supplier Group's proposal was not consistent with that plan. OSBA Statement No. 1, at 7-8.

Regarding voluntary capacity assignment, Mr. Knecht explained that voluntary capacity assignment was inappropriate because it would unfairly leave PGC customers exposed to stranded costs. *Id.*, at 8-9.

**D. Stipulation – Capacity Assignment**

Consistent with Mr. Knecht’s testimony, the *Stipulation* rejects all of the capacity assignment proposals by the Supplier Group. In exchange, the *Stipulation* adopts a modified sale mechanism that is purported to provide the Choice suppliers with greater flexibility in the timing of the winter sales (to better mimic the flexibility that Choice suppliers would have if storage capacity could be assigned), while retaining sensible protections for PGC ratepayers.

The OSBA takes no position on the capacity assignment portion of the *Stipulation*.

**E, Stipulation – Sharing Mechanism**

Finally, in regard to the Supplier Group’s proposal to credit the 75% customer share of all off-system sales and capacity release revenues to both PGC customers and Choice customers, Mr. Knecht responded:

The margins earned by PNG from capacity release and off-system sales are primarily derived from unused capacity on the Company’s transmission and storage assets during non-peak periods. Because NGSs control any capacity assigned to them, NGDCs can rely only on capacity retained for its own obligations to earn these margins.

Thus, the margins earned by PNG are related to the assets that are retained for PGC customers, and which, to a very large extent, are paid for by PGC customers. Accordingly, the credit associated with the use of those assets for alternative transactions should be credited almost entirely to PGC customers.

NGS Choice suppliers are similarly able to generate margins from off-system sales and capacity release transactions with the upstream capacity they are assigned, and are free to credit their customers with those margins as they see fit. *Assigning NGDC margins to all customers would allow shopping customers to benefit twice from these margins, first from the capacity that is used to serve PGC customers and second from the capacity used by the NGS to serve Choice customers.*

However, as I discussed earlier, PNG does provide minimal balancing services to Choice NGSs, for which it relies on upstream capacity. Because Choice NGSs are paying for that capacity, it is appropriate that the margins earned from off-system sales and capacity release transactions offset load balancing costs. I therefore agree with [Supplier Group witness] Mr. Crist that a proportionate share of the margin credit should offset the cost basis for the balancing charges under Rate Schedule AG that PNG imposes on the Choice suppliers.

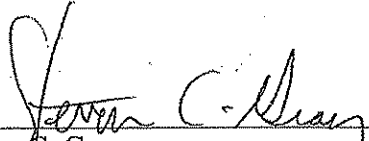
OSBA Statement No. 1, at 9 (emphasis added).

The *Stipulation* generally follows the recommendation of Mr. Knecht. The proposed sharing mechanism will be modified to provide the marketers with a credit to their capacity costs based upon the storage asset management revenues and off-system sales margins generated from the use of peaking services attributable to the marketers' customers. *Stipulation*, at Paragraph 41.

**Conclusion**

The OSBA takes no position on the *Stipulation* regarding capacity assignment. However, the OSBA respectfully requests that the ALJ and the Commission approve the remaining provisions of the *Stipulation*.

Respectfully submitted,



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

For:

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Small Business Advocate  
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Harrisburg, PA 17101

Dated: August 23, 2011

**APPENDIX H**  
**(Supplier Group Statement in Support)**

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

Pennsylvania Public Utility Commission, et al.	:	
	:	
v.	:	Docket No. R-2011-2238943
	:	
UGI Penn Natural Gas, Inc.	:	

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**STATEMENT IN SUPPORT OF SETTLEMENT OF  
CENTERPOINT ENERGY SERVICES, INC.,  
JEROME H. RHOADS, INC. D/B/A RHOADS ENERGY CORPORATION,  
SHIPLEY ENERGY COMPANY and SHIPLEY CHOICE LLC**

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CenterPoint Energy Services, Inc. (“CES”), Shipley Energy Company and Shipley Choice LLC (collectively “Shipley”), and Jerome H. Rhoads, Inc. d/b/a Rhoads Energy Corporation (“Rhoads”) (collectively “the Supplier Group”) hereby offer 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 June 1, 2011, UGI Penn Natural Gas, Inc. (“PNG” or “the Company”) submitted its annual purchased gas cost (“PGC”) filing to the Pennsylvania Public Utility Commission (“the Commission”) pursuant to Section 1307(f) of the Public Utility Code, 66 Pa. C.S. § 1307(f).

2. PNG’s 1307(f) filing contained information on PNG’s mandatory capacity assignment program, that requires natural gas suppliers (“NGSs”) operating on the PNG system to take assignment of, and to pay for, a level of pipeline capacity assets. The pipeline capacity

assets in question are priced at the average weighted cost of all PNG's capacity assets, both base-load and peaking, as well as storage and other assets, even though no storage or peaking assets are assigned. PNG's tariff currently provides options for assignment of pipeline capacity at a level calculated to be sufficient for an average January day. Beginning November 1, 2012, however, the pipeline capacity assignment escalates to a design peak day level of assets, which would increase the level of assets assigned and the associated costs significantly.

3. CES petitioned to intervene in the above-captioned case on June 8, 2011, and its petition was granted by order of the presiding Administrative Law Judge on June 22, 2011.

4. Shipley and Rhoads petitioned to intervene in the above-captioned case on June 28, 2011, and their petitions were granted by order of the presiding Administrative Law Judge on June 29, 2011.

5. The Supplier Group presented direct, rebuttal, and surrebuttal testimony in this case through its witness, James L. Crist, and actively engaged in settlement negotiations with all parties. The Supplier Group's concern in this matter has been focused on PNG's mandatory capacity assignment program and the distribution of off-system sales revenues.

6. The Supplier Group's testimony presented five main points: (1) capacity assigned to Choice suppliers should include all interstate pipeline transportation and storage capacity that was procured to serve a Choice supplier's customers; (2) the price charged for assigned capacity should be derived from the actual contract rate for the assigned capacity, not a weighted average cost of all capacity that the Company has acquired, which includes capacity that has no connection to an NGS's customers; (3) the derivation of the capacity assigned to a natural gas supplier should be based on the average day in the month of highest usage on the Company's system, and an NGS's capacity assignment should equate to its proportional share of the actual

capacity PNG has under contract so that PNG does not over or under allocate its actual capacity; (4) the Company's capacity assignment program should be voluntary; and (5) the 75% customer share of off-system sales revenues should be credited to both PGC customers and Choice customers on a proportionate basis.

7. In discussing these five points, the Supplier Group, through its witness, expressed the position that PNG's capacity assignment program is not in compliance with the Natural Gas Choice and Competition Act and corresponding Commission orders requiring that capacity assignments be made on a non-discriminatory basis and that transportation and storage assets should follow the shopping customers because (1) the Company does not release the same mix of system assets to Choice suppliers that it uses to supply the needs of the sales customers; (2) the Company allocates the costs that Choice suppliers must pay for the capacity that PNG does plan to release (interstate pipeline capacity), based on peak day requirements, even though PNG did not purchase that capacity for peaking purposes to begin with, but rather purchased that capacity for base load purposes, to meet the system's average day in the coldest month; and (3) the Company charges the weighted average demand cost of all PNG PGC capacity, storage, and peaking assets, yet releases only the interstate pipeline capacity. In addition, 66 Pa. C.S. § 2204(d) and (e) provide that NGSs cannot be assigned capacity for contracts that were entered into or renewed after the Company's restructuring filing, unless the Company has followed a specific review and approval process, which is outlined in § 2204(e). Because the Company has not specified what assets it plans to assign, the Supplier Group explained that it could not confirm that these statutory requirements have been met.

8. Although the Settlement does not adopt the allocation of both pipeline capacity and storage assets approach that the Supplier Group proposed, the Settlement includes changes to

PNG's capacity assignment program that improve it. These changes should provide NGSs with flexibility that they do not have under the existing (and proposed) PNG capacity assignment program. First, the Company has agreed to modify the bundled sale option in its current tariff to allow for daily withdrawal flexibility, effective November 1, 2012. Under this approach, Choice suppliers will be able to purchase natural gas from PNG on a monthly basis in a manner that is comparable to the bundled sales program that is presently included in the PNG Choice tariff. The improvement to this program that was agreed upon is that instead of requiring that a Choice supplier take gas purchased under this program on a daily, ratable basis during the course of the winter, under the revised approach, a participating Choice supplier can vary its gas receipts on a daily basis from zero Dth up to a maximum daily quantity based on the Choice supplier's daily delivery requirement ("DDR"), with the requirement that the Choice supplier take a fixed monthly quantity by the end of the month. This approach provides Choice suppliers participating in this program with some (although not all) of the flexibility that a supplier would have if it controlled storage itself. Thus, while this approach is not entirely comparable to storage capacity assignment, it provides the Choice suppliers with some additional flexibility.

9. In addition, the Settlement provides that bundled sale quantities not purchased by NGSs by the end of the month will be purchased by the PGC. The fixed monthly bundled sale quantities will be based on the current storage withdrawal plan for PNG, updated annually, and communicated as a percentage of each Choice supplier's pre-month normalized delivery requirements. The maximum daily quantities for the bundled sale will be determined based on the daily delivery flexibility of the Company's storage assets. The percentage of Choice capacity release associated with firm transportation contracts will be modified based on the impact of changing the daily flexibility of bundled sales quantities.

10. The DDR Variation Percentage is the sum of the actual DDRs experienced by a Choice supplier divided by the sum of the pre-month average DDRs that was used to calculate the fixed monthly bundled sales quantity, converted to percentage. For any month where the DDR Variation Percentage is greater than ninety percent (90%), the index used for bundled sale cash-ins is 0.9 times the lowest Henry Hub price for the applicable month of flow. In the case where the DDR Variation Percentage is less than or equal to ninety percent (90%), an alternative production area index applies. This represents a compromise by the Supplier Group for purposes of achieving settlement.

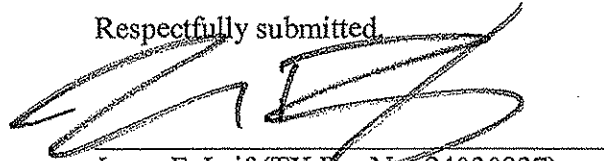
11. The Settlement also provides that Choice suppliers will be required to purchase from the Company a separate bundled sale on peak days when, in the winter, the Choice supplier's DDR exceeds the sum of the released firm capacity and the maximum daily quantity associated with the bundled sale up to the Choice supplier's peak daily delivery requirement.

12. The Settlement further provides that the Company will modify its revenue sharing mechanism to provide Choice suppliers a monthly credit to their direct assigned capacity costs for the period beginning December 1, 2011 through October 31, 2012 equal to the percentage of (a) aggregated Choice supplier customer assigned design day demand to (b) the sum of PGC and Choice supplier customer design day demand, multiplied by (c) the sum of storage asset management revenues and off-system sales margins generated from the use of peaking services not otherwise retained by the Company or the non-Choice transportation customers. This modification provides participating Choice suppliers with a share of off-system revenue during the transition period prior to the implementation of the bundled sale flexibility. Thus, the Supplier Group believes that this is an appropriate transition mechanism.

13. The Supplier Group believes that the Settlement is a reasonable compromise between themselves and the other parties. This Settlement provides NGSs with additional flexibility, which will be achieved using storage assets, thereby making the allocation of certain storage costs to the NGSs more appropriate than in the original PNG capacity assignment approach. Although the Supplier Group continues to believe, as a general matter, that any assignment of capacity should include a bundle of all the assets used to serve customers, including storage assets, and that those assets should follow a customer, the approach achieved in the Settlement is a reasonable compromise that should be adopted.

14. For the foregoing reasons, the Supplier Group respectfully requests that the Commission approve the Settlement as filed.

Respectfully submitted,



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Corporation, Shipley Energy Company, and Shipley  
Choice LLC*

DATED: August 22, 2011

**APPENDIX I**

**(Kathleen Moran-Roberto Statement in Support)**

RECEIVED

AUG 23 2011

OFFICE OF  
CONSUMER ADVOCATE

Kathleen Moran-Roberto  
17 Shady Lane  
Moosic, PA 18507

August 22, 2011

The Honorable Kandace F. Melillo, Administrative Law Judge,

You honor,

I am in agreement with the settlement of the increased rate phase-in of 15% on December 1, 2011;  
40% on December 1, 2012; 65% on December 1, 2013; 100% August 27, 2014.

I understand that this agreement still allows me to pursue my complaint of the legality of discontinuing  
the GBM program, service quality issues, and the main extension issues.

Sincerely,



Kathleen Moran-Roberto

**APPENDIX J**  
**(P&G Letter of Non-Opposition)**

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August 23, 2011

The Honorable Kandace F. Melillo  
Administrative Law Judge  
Pennsylvania Public Utility Commission  
P.O. Box 3265  
Harrisburg, PA 17105-3265

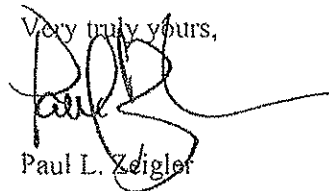
**RE: Pennsylvania Public Utility Commission v. UGI Penn Natural Gas, Inc.  
Docket No. R-2011-2238943**

Dear Judge Melillo:

On behalf of the Procter & Gamble Paper Products Company, please be advised that my client neither supports nor opposes the Stipulation in Settlement of Section 1307(f) Rate Investigation relating to the above-noted docket.

Further, Procter & Gamble Paper Products Company has no objection to admission into the record of the evidence set forth in the aforesaid Stipulation in Settlement of the Section 1307(f) Rate Investigation in the above-noted docket.

Very truly yours,



Paul L. Zeigler

PLZ/em

cc: All parties per Certificate of Service  
Alex Fried, Department Manager, The Procter & Gamble Paper Products Company

CERTIFICATE OF SERVICE

The undersigned certifies that he served a copy of the foregoing document upon the following participants this 23rd day of August, 2011, via first-class mail and/or electronic mail:

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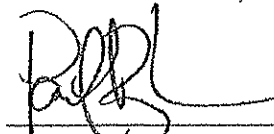
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Law Office of  
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By:



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Date: August 23, 2011