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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
P.O. Box 3265
Harrisburg, PA 17105-3265

**RE: Pennsylvania Public Utility Commission, et al. v. UGI Utilities, Inc. - Gas Division
Docket No. R-2011-2238953, C-2011-2243186 and C-2011-2248211**

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-2011-2238953, C-2011-2243186 and C-2011-2248211)

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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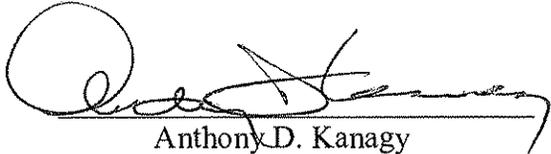
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Date: August 23, 2011


Anthony D. Kanagy

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY	:	
COMMISSION, ET AL.	:	
	:	Docket Nos. R-2011-2238953
v.	:	C-2011-2243186
	:	C-2011-2248211
UGI UTILITIES, INC. – GAS DIVISION	:	

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

TO ADMINISTRATIVE LAW JUDGE KANDACE F. MELILLO:

I. INTRODUCTION

UGI Utilities, Inc. – Gas Division (“UGI”), 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”),¹ 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”) 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”),² and hereby request that Administrative Law Judge Kandace F. Melillo (the “ALJ”) and the Commission:

¹ The OSBA takes no position on the capacity assignment provisions of the Settlement.

² In addition, the UGI Industrial Intervenors (“UGI II”), the only other party in this proceeding, has indicated that it

(1) authorize UGI 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 Pa.C.S. § 1318.

The rates set forth in Appendix A reduce UGI's June 1, 2011 PGC(1) rate of \$8.4888 per Mcf applicable to Rate R customers to \$8.4642 per Mcf, and June 1, 2011 PGC(1) rate of \$8.4844 applicable to Rate N customers to \$8.4598 per Mcf. The Appendix A rates also result in a reduction from the average June 1, 2011 PGC(2) rate of \$6.3924 per Mcf to \$5.9964 per Mcf, or a reduction of \$0.3960 per Mcf.

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

II. BACKGROUND

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

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

2. On April 29, 2011, UGI provided the Commission with the pre-filing information required by 52 Pa. Code § 53.64(c) and 52 Pa. Code § 53.65.

does not support or oppose the Settlement.

3. On or about May 3, 2011, counsel for OTS filed a Notice of Appearance.³
4. On or about May 11, 2011 the OCA filed a notice of appearance, formal complaint and public statement, docketed at C-2011-2243186, which UGI answered on June 3, 2011.
5. On June 1, 2011, in accordance with the schedule for Section 1307(f) filings established by the Commission, UGI submitted its 2011 PGC filing to the Commission, with proposed modifications to UGI's Tariff Gas - Pa. P.U.C. No. 5, to become effective December 1, 2011.
6. UGI's June 1, 2011 PGC filing proposed to implement a PGC(1) rate of \$8.49/Mcf, and an average PGC(2) rate of \$6.20/Mcf, effective December 1, 2010.
7. UGI also filed the direct written testimony of its supporting witnesses with its PGC filing on June 1, 2011.
8. 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.
9. On or about June 8, 2011 CenterPoint filed a petition to intervene.
10. 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.
11. On or about June 14, 2011, the OSBA filed a notice of appearance, formal complaint and public statement, docketed at C-2011-2248211, which UGI answered on June 27, 2011.

³ 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 16, 2011, UGIII filed a petition to intervene which was granted during the prehearing conference conducted on that date and confirmed in a subsequent Order issued by the ALJ on June 22, 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 UGI Penn Natural Gas, Inc. ("PNG") PGC proceeding at Docket No. R-2011-2238943, UGI Central Penn Gas, Inc. ("CPG") PGC proceeding at Docket No. R-2011-2238949 and UGI PGC proceeding was conducted by ALJ Melillo.

15. At the Prehearing Conference, amongst other things, the CPG, UGI, and PNG 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. By Order issued 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. 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; UGI, OCA, OTS,

OSBA and the Supplier Group filed rebuttal testimony on July 25, 2011; and UGI and the Supplier Group filed surrebuttal testimony on August 3, 2011.

22. 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.

23. On August 5, 2011 UGI 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.

24. 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.

25. During the August 8, 2011 hearing, all of the testimony and exhibits, except Supplier Group Exhibit SG-R-5, were offered and admitted into the record by stipulation with accompanying signed affidavits or affirmations of the sponsoring witnesses.

III. GENERAL PROVISIONS OF SETTLEMENT

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

27. In its PGC compliance filing in this proceeding, UGI will reflect 1 Bcf 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 1 Bcf projection.

28. UGI 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.

29. In its PGC compliance filing in this proceeding, UGI will reduce its December 2010 beginning Undercollection Balance by \$376,000.

30. In its PGC compliance filing in this proceeding, UGI will revise its PGC 2 Sales Volume projection by 63,548 Mcf.

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

32. UGI will modify its design cold temperatures as shown in Appendix B.

33. In calculating the design day requirements for days other than the coldest day, UGI 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-00072335.

34. Based on the updated design cold temperatures, UGI will revise its proposed request-for-proposal ("RFP") for peaking service, as initially described in UGI Statement No. 2, to request a five-day, as opposed to an eight-day, service at a 100% load factor. UGI will also modify this RFP to request two separate peaking services. The first peaking service will be for a maximum daily quantity of 40,000 Dth over a five-year term. The second peaking service will be for a maximum daily quantity of 34,500 Dth, but will only have a one-year term, thereby allowing UGI to cover its 2012-2013 winter season while preserving UGI's ability to shed the contract if UGI's peak day demand is revised downward either voluntarily or in its 2012 PGC proceeding. In both RFPs UGI may require the right to call on the service on an intra-day basis

("No-Notice Service"), and potential bidders will be provided four, as opposed to the initially proposed three, weeks to respond. After the RFPs are completed, all Parties would have the right to review and challenge, in UGI's 2012 PGC proceeding, all aspects of UGI's decisions in choosing replacement services for its existing peaking contracts except for (1) the need for the service, (2) the quantities requested in the RFPs as described above, (3) the timing of the RFPs and (4) the inclusion of the No-Notice Service provisions in the proposed RFPs.

35. The peaking services being replaced following the RFP process described in the preceding paragraph currently provide UGI with 80,000 Dth of No-Notice Service. To the extent UGI seeks to recover in its 2012 PGC or subsequent PGCs the costs of No-Notice Service in excess of 80,000 Dth, UGI will be required to demonstrate, through a RFP process, that the contracted No-Notice Service in excess of 80,000 Dth is the least cost option, including reasonably expected off-system margins and capacity release revenues that would result from the availability of the No-Notice Service. Moreover, nothing in this Settlement will preclude Parties from challenging the quantity of No-Notice Service required by UGI for periods beyond the initial terms (five years for the 40,000 Dth service and one year for the 34,500 Dth service) awarded under the RFPs discussed in the preceding paragraph.

36. All other provisions of UGI's proposed RFPs, as described in UGI Statement No. 2, would be as filed.

37. Neither the acceptance by the Parties of UGI's design day demand pursuant to paragraph 31 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.

38. In its PGC compliance filing, UGI will modify its rules applicable to direct assignment option involving bundled sales (Options 2), 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"), UGI 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 UGI 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 "Columbia Gulf Transmission Co., Mainline" 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 UGI'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 UGI's storage withdrawal plan for 2011-2012.

d. Bundled sale MDQs will be determined based on the daily delivery flexibility of UGI'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 seen on Appendix C, Exhibit 1, Table 1.

e. Choice suppliers will be required to nominate to UGI Companies 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 required to 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 UGI 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 Daily Delivery Requirement, the Choice supplier will be responsible for arranging for supplies to meet the additional delivery requirements for its Choice customers. The Peaking Sale price will be based on the variable cost of UGI's peaking services only, since the demand charges associated with UGI's peaking services 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. UGI 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 UGI to lose storage deliverability during the end of the same month.

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

40. The rate for UGI 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). UGI'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. UGI will modify its revenue sharing mechanism to provide UGI 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 UGI or the non-Choice transportation customers.

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

IV. STANDARDS AND FINDINGS

43. 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 UGI may recover for a previous 12-month period under the standards set forth in Section 1318. In addition, because UGI has filed tariffs proposing new PGC rates, the Commission must determine whether the 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

44. With respect to UGI'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 UGI has met the standards set forth in Section 1318 of the Public Utility Code, as required by Section 1307(f)(5) of the Public Utility Code, as to all historic period purchased gas costs. All Parties request that the Commission find, pursuant to Section 1307(f)(5) of the Public Utility Code, and based upon the evidence presented by the parties in this case, that, during the twelve-month period ended March 31, 2011, UGI has met the requirements of Section 1318 of the Public Utility Code by pursuing a least-cost fuel procurement policy, consistent with its obligation to provide safe, adequate and reliable service to its customers. Information submitted by UGI in support of the required statutory findings can be found in the following sections of the UGI Exhibit 1:

A. FERC Participation (§1317(a)(1); §1318(a)(1)): Prefiling, Section 3.

B. Supplier Negotiations/Renegotiations (§1317(a)(2); §1318(a)(2)): Prefiling, Sections 2 and 5.

C. Efforts to Obtain Lower Cost Supplies (§1317(a)(3); §1318(a)(3)): Prefiling, Sections 1, 2, and 5.

D. Withheld Supplies (§1317(a)(4); §1318(a)(4)): Prefiling, Section 5.

E. Non-Affiliated Purchases (§1317(b); §1318(b)): Prefiling, Section 13.

F. Least Cost Fuel Procurement Policy (§1317(a); §1318(a)): Prefiling, Section 1, 2 and 5.

G. Calculation of 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

45. 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 UGI has satisfied each of the standards for a least cost procurement policy set forth in Section 1318 of the Public Utility Code, including the standards set forth in Sections 1318(a)(1), 1318(a)(2), 1318(a)(3), 1318(a)(4), 1318(b)(1), 1318(b)(2) and 1318(b)(3), based upon the evidence of record in this proceeding. 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.

46. 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.

47. 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 UGI's experienced and projected gas purchases and gas purchasing practices complied with the standards set forth in Section 1318 of the Public Utility Code, 66 Pa. C.S. § 1318, shall be permitted and that the Commission's adoption of the findings under Section IV.B. of this Settlement shall not be construed to limit or prevent any disallowance or reduction of such costs, except as provided in Section III above.

V. CONDITIONS OF SETTLEMENT

48. This Settlement is conditioned upon the Commission's approval of the terms and conditions contained herein without modification, addition or deletion. If the Commission modifies the Settlement or fails to approve, by December 1, 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.

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

50. 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.

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

52. This Settlement is being presented only in the context of this Section 1307(f) proceeding in an effort to resolve certain outstanding issues in a manner that is fair and reasonable. 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.

53. The Parties acknowledge and agree that this Settlement shall have the same force and effect as if the Parties had fully litigated this proceeding with regard to the historic period ended March 31, 2011.

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

55. This Settlement may be executed in counterparts.

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

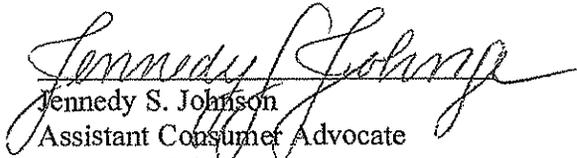
1. That Administrative Law Judge Kandace F. Melillo and the Commission approve this Settlement, including all terms and conditions thereof.

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

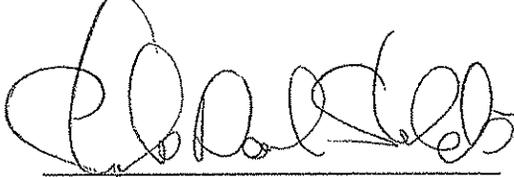
4. That the Commission terminate and mark closed its inquiry and investigation at Docket Nos. R-2011-2238953, C-2011-2243186 and C-2011-2248211.

Respectfully submitted,



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Assistant Consumer Advocate
James A Mullins
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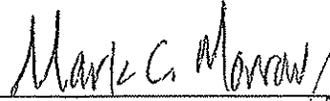


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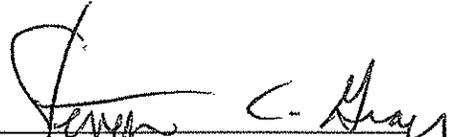
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Dated: August 23, 2011



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Counsel for UGI Utilities, Inc. –
Gas Division



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Counsel for the Office of Small Business Advocate

APPENDIX A

(UGI Settlement Rates – Subject to Updates)

Schedule A
SETTLEMENT
Page 1

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

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

C1 - Projected Cost **	\$	227,074,280
S1 - Projected Sales (Mcf)		28,046,812
C1 / S1 Projected Cost per Mcf	\$	8.0980
IRC - Interruptible Revenue Credit	\$	(0.2285)
E1 - Experienced Cost Rate R*	\$	(17,401,658)
E1 - Experienced Cost Rates N*	\$	(17,357,708)
E1 / S1 Experienced Cost per dth Rate R*	\$	0.5966
E1 / S1 Experienced Cost per dth Rates N* (or Gas Cost Adjustment (GCA))	\$	0.5923
PGC1 = (GSC1 + GCA1) @ 12.1.2011 - Proposed Rate R	\$	8.4642
PGC1 = (GSC1 + GCA1) @ 12.1.2011 - Proposed Rates N	\$	8.4598
PGC1 = (GSC1 + GCA1) @ 6.1.2010 - Rate R	\$	8.4888
PGC1 = (GSC1 + GCA1) @ 6.1.2011 - Rates N	\$	8.4844
<u>PGC1 Change Rate R</u>	\$	<u>(0.0248)</u>
<u>PGC1 Change Rate N</u>	\$	<u>(0.0248)</u>

Percent Residential Heating Change -0.2%

* Reflects Settlement Adjustment of \$378,000. See Schedule C, Page 1.

* Reflect Migration Rider applicable volumes of 1,000,000 mcf per Settlement. See Schedule C, Page 1.

Schedule A
SETTLEMENT
Page 2

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

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

C2 - Projected Cost	\$	428,491
S2 - Projected Sales (Mcf)		63,548
C2 / S2 Projected Cost per Mcf	\$	6.6640
IRC - Interruptible Revenue Credit	\$	(0.2285)
E2 - Experienced Cost Rate	\$	-
E2 / S2 Experienced Cost per Mcf * (or Gas Cost Adjustment (GCA))	\$	(0.4391)
PGC2 = (GSC2 + GCA2) @ 12.1.2011	\$	5.9954
PGC2 = (GSC2 + GCA2) @ 0.1.2011 - Current:	\$	6.3924
<u>PGC2 Change</u>	\$	<u>(0.3950)</u>

* Reflects PGC 2 Sales of 63,548 Mcf for E factor Calculation per Settlement. See Schedule C, Page 1.

UGI Utilities, Inc. - Gas Division
Computation of the Experienced Cost Factor: E1 and E2
For the 2011 PGC Year

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

<u>REFUND CREDITS</u>	<u>PGC 1</u>	<u>PGC 2</u>
Prior Refund credits (Amortized Balance as of November Schedule C, Pac \$	(5,445)	\$ 125
Current Rate (Twelve Months Ended November Schedule C, Pac \$	157,295	\$ 67
Interest Rate (Twelve Months Ended November Schedule C, Pac \$	14,106	\$ 5
<u>OVER / (UNDER) COLLECTION</u>		
Prior * (Amortized Balance as of November Schedule C, Pac	(2,630,559) 1/	17,088
Current (Twelve Months Ended November Schedule C, Pac	(14,651,039)	10,122
Interest (Twelve Months Ended November Schedule C, Pac	(286,016)	488
TOTAL E	<u>\$ (17,401,658)</u>	<u>\$ 27,905</u>
TOTAL S (Mcf)	28,616,612	63,548 3/
SETTLEMENT Adjustment for Choice Sales Volumes	550,000	
Settlement Sales Volumes,	29,166,612 2/	
<u>E / S Refund / (Collection) \$/Mcf:</u>	<u>\$ (0.5966)</u>	<u>\$ 0.4391</u>
<u>TENN PCB REFUND *</u>		
Current Rate (Twelve Months Ended November Schedule C, Pac \$	41,000	
Interest Rate (Twelve Months Ended November Schedule C, Pac \$	2,870	
TOTAL S (Mcf):	10,082,529	
<u>E / S Tenn PCB= Refund / (Collection) \$/Mcf:</u>	<u>\$ 0.0044</u>	
<u>E / S Refund / (Collection) \$/Mcf:</u>	<u>\$ (0.5923)</u>	

1/ Includes \$376,00 adjustment per Settlement.

2/ Includes 1,000,000 Mcf of Applicable Migration Rider volumes per Settlement.

3/ PGC 2 Sales per Settlement.

Notes:

* The Tenn PCB Refund is only applicable to rate schedule N

APPENDIX B
(UGI design cold temperatures)

UGI Utilities, Inc.

Location	Book 1 Attachment 14-2 Pages 1-3	30-year 1975-2004			30-year 1980-2009		
	Design	Normal	Design	%	Normal	Design	%
UGI - Composite							
Primary	5,577	4,603	5,136	11.6%	4,543	5,057	11.3%
Secondary	5,241	5,409	5,036	11.5%	5,360	5,991	11.8%

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 UGI's 2007 PUC settlement.

UGI Utilities, Inc.

Day	UGI Primary		UGI Secondary	
	Temp F	HDD	Temp F	HDD
1	-3.6	69	-8.0	73
2	4.2	61	-5.0	70
3	6.9	58	-1.6	67
4	6.9	56	0.3	65
5	10.4	55	2.3	63
6	14.3	54	3.4	62
7	12.3	53	4.1	61
8	12.0	52	6.2	60
9	13.5	52	6.5	59
10	14.2	51	7.3	58
11	14.9	50	7.8	57
12	15.3	50	8.4	57
13	15.8	49	8.9	58
14	16.5	49	9.3	56
15	16.9	48	10.0	55
16	17.7	47	10.4	55
17	16.1	47	11.2	54
18	18.6	46	11.5	54
19	19.0	46	12.2	53
20	19.5	46	12.6	52
21	19.9	45	12.7	52
22	20.2	45	13.0	52
23	20.7	44	13.5	51
24	21.0	44	14.1	51
25	21.4	44	14.5	50
26	21.8	43	14.9	50
27	22.0	43	15.2	50
28	22.2	43	15.6	48
29	22.6	42	15.9	49
30	22.9	42	16.3	48
31	23.3	42	16.6	48
32	23.7	41	17.0	48
33	24.0	41	17.1	48
34	24.2	41	17.4	48
35	24.4	41	17.6	47
36	24.8	40	17.9	47
37	24.9	40	18.3	47
38	25.2	40	18.7	46
39	25.5	39	18.7	46
40	25.8	39	18.8	46
41	26.1	39	19.0	46
42	26.3	39	19.5	46
43	26.6	38	19.7	46
44	26.9	38	19.8	45
45	27.1	38	20.2	45
46	27.3	38	20.3	45
47	27.6	37	20.7	44
48	27.3	37	20.8	44
49	27.9	37	21.2	44
50	28.2	37	21.6	44
51	28.3	37	21.7	43
52	28.6	36	21.9	43
53	28.7	36	22.4	43
54	28.1	36	22.6	43
55	29.2	36	22.7	42
56	28.4	36	23.0	42
57	29.5	35	23.2	42
58	29.7	35	23.5	41
59	29.9	35	23.7	41
60	30.1	35	23.7	41
61	30.3	35	23.9	41
62	30.5	35	24.5	41

UGI Utilities, Inc.

Day	UGI Primary		UGI Secondary	
	Temp F	HDD	Temp F	HDD
63	30.7	34	24.7	40
64	30.9	34	24.8	40
65	31.2	34	24.9	40
66	31.4	34	25.1	40
67	31.6	33	25.4	40
68	31.8	33	25.7	39
69	32.0	33	25.9	39
70	32.1	33	26.2	39
71	32.3	33	26.4	39
72	32.5	32	26.4	39
73	32.7	32	26.6	38
74	32.8	32	26.8	38
75	32.9	32	26.9	38
76	33.0	32	27.2	38
77	33.1	32	27.3	38
78	33.2	32	27.6	37
79	33.4	32	27.7	37
80	33.5	32	27.8	37
81	33.6	31	28.0	37
82	33.8	31	28.1	37
83	34.0	31	28.5	37
84	34.3	31	28.7	36
85	34.5	31	28.8	36
86	34.6	30	28.9	36
87	34.8	30	29.0	36
88	35.1	30	29.4	36
89	35.2	30	29.6	35
90	35.4	30	29.7	35
91	35.6	29	29.8	35
92	35.7	29	29.9	35
93	35.9	29	30.1	35
94	36.0	29	30.2	35
95	36.3	29	30.5	35
96	36.4	29	30.6	34
97	36.8	28	30.9	34
98	36.7	28	30.9	34
99	36.9	28	31.0	34
100	37.0	28	31.3	34
101	37.3	28	31.5	33
102	37.4	28	31.8	33
103	37.6	27	32.0	33
104	37.7	27	32.2	33
105	37.8	27	32.3	33
106	38.0	27	32.6	32
107	38.3	27	32.7	32
108	38.4	27	32.8	32
109	38.5	26	33.1	32
110	38.7	26	33.2	32
111	38.9	26	33.4	32
112	39.1	26	33.6	31
113	39.3	26	33.6	31
114	39.5	25	33.9	31
115	39.8	25	34.1	31
116	39.9	25	34.2	31
117	40.1	25	34.4	31
118	40.8	25	34.6	30
119	40.4	25	34.8	30
120	40.8	24	35.2	30
121	40.8	24	35.2	30
122	41.0	24	35.4	30
123	41.2	24	35.5	29
124	41.4	24	35.7	29

UGI Utilities, Inc.

Day	UGI Primary		UGI Secondary	
	Temp F	HDD	Temp F	HDD
125	41.6	23	35.8	29
126	41.7	23	36.0	29
127	41.8	23	36.2	28
128	42.0	23	36.6	28
129	42.2	23	36.8	28
130	42.3	23	36.8	28
131	42.5	23	37.0	28
132	42.7	22	37.1	28
133	42.9	22	37.4	28
134	43.1	22	37.5	27
135	43.2	22	37.6	27
136	43.3	22	37.7	27
137	43.5	21	37.9	27
138	43.7	21	38.0	27
139	43.8	21	38.3	27
140	43.9	21	38.4	27
141	44.1	21	38.5	27
142	44.3	21	38.5	26
143	44.4	21	38.7	26
144	44.5	20	38.8	26
145	44.7	20	39.1	26
146	44.8	20	39.4	26
147	45.0	20	39.5	26
148	45.1	20	39.7	26
149	45.3	20	40.1	26
150	45.5	19	40.2	26
151	45.7	18	40.6	26

APPENDIX C
(Direct Assignment Information)

Table 1

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

Table 2

	Must-Take Monthly Bundled Sale Percentage ²				
	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 ³					
	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)		Table 1 Peak Day Allocation		
		FT Release	Bundled Sale	Peaking Sale
UGI	89,002	52%	28%	20%
PNG	21,606	35%	56%	9%
CPG	7,999	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		
		WT Release	Bundled Sale	Peaking Sale
UGI	89,002	28%	28%	20%
PNG	21,606	43%	56%	0%
CPG	7,999	29%	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
(UGI Statement in Support)

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY	:	
COMMISSION, ET AL.	:	
	:	Docket Nos. R-2011-2238953
v.	:	C-2011-2243186
	:	C-2011-2248211
UGI UTILITIES, INC. – GAS DIVISION	:	

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

TO ADMINISTRATIVE LAW JUDGE KANDACE F. MELILLO:

I. INTRODUCTION

UGI Utilities, Inc. – Gas Division (“UGI” or the “Company”) hereby submits this Statement in Support of the Stipulation in Settlement of Section 1307(f) Rate Investigation (“Settlement”) entered into by UGI, the Bureau of Investigation and Enforcement (“BI&E”) 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”).¹ The Settlement has been entered into or not opposed by all parties and resolves all issues in this proceeding.

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

UGI believes that this Settlement is in the best interests of UGI, its customers and the Joint Petitioners, and therefore is in the public interest and should be approved.

The Settlement of this proceeding was achieved only after a comprehensive investigation of UGI's gas procurement practices. UGI responded to approximately 207 formal discovery requests, many of which had multiple subparts. Parties also filed multiple rounds of testimony, including UGI's direct; BI&E, OCA, and Supplier Group direct testimony; UGI, BI&E, OCA, OSBA and Supplier Group rebuttal testimony; and UGI 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 UGI's projected PGC rates is shown on Schedule C, page 1, of UGI'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 UGI Statement No. 1, page 9, lines 6-10.

On page 11 of BI&E Statement No. 1, BI&E witness Dorothy Morrissey 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 UGI failed to include such volumes.

In his rebuttal testimony, UGI 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 450,000 Mcf of such volumes had been included in the projected sales used to develop the E-Factor in Schedule C, and asserted that UGI had updated its projections of customer Choice volumes subject to the migration rider during the twelve month period ending November 30, 2012 to 1 Bcf. UGI Statement No. 1-R, p. 4, line 18 through p. 5, line 3.

The Settlement fairly resolves this issue by providing that UGI will use its revised 1 Bcf 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. E-Factor Adjustment

On page 7, line 7 through page 8, line 11 of BI&E Statement No. 1, BI&E witness Dorothy Morrissey noted that UGI had overstated its under-collection balance in its 2009 PGC proceeding by \$259,913 (\$251,124 + \$8,789 interest), acknowledged the error, but subsequently failed to correct it in its 2009 and 2010 PGC compliance filings. She also asserted that \$30,135 in additional interest should be paid on this amount. On page 8, lines 17-22, Ms. Morrissey also noted that the prior year's under-collection balance in UGI's current PGC filing was overstated by \$115,262.

In his rebuttal testimony, Mr. McAllister agreed that the \$259,913 adjustment related to the 2009 PGC error should be corrected in the compliance filing in this proceeding, but contested any award of additional interest, noting that there are other

prior period under-collection balances for which UGI does not claim interest, and that it has not been normal practice to collect or refund interest when correcting prior period errors. UGI Statement No. 1-R, p. 1, line 22 through p. 4, line 2. Mr. McAllister also acknowledged that Ms. Morrissey's \$115,262 adjustment was appropriate, noting that it related to two discrepancies that occurred for the months of March and December 2010. UGI Statement No. 1-R, p. 4, lines 7-8.

The Settlement fairly resolves this issue by providing that UGI will reduce its December 2010 beginning Under-collection Balance by \$376,000 to correct these errors, while not including any provision for payment of additional interest.

C. PGC(2) Sales Volume Projection

On page 12, lines 4-10 of BI&E Statement No. 1, BI&E witness Dorothy Morrissey noted that UGI had incorrectly used 2010, and not 2011, PGC(2) volumes in calculating the E-Factor for PGC(2) customers.

In his rebuttal testimony, Mr. McAllister agreed and stated that UGI would use corrected PGC(2) volumes of 63,548 Mcf in computing the PGC(2) E-Factor in its compliance filing in this proceeding. UGI Statement No. 1-R, p. 5, lines 13-14.

The Settlement fairly resolves this issue by reflecting this commitment.

D. Peak day Forecast

On pages 4 through 8 of his direct testimony, OCA witness Jerome D. Mierzwa described his attempt to model UGI's peak day requirements, concluded that peak day requirements are not increasing as projected by UGI due to customer conservation, and recommended that UGI modify its design peak day forecasting procedures to reflect conservation efforts by its customers.

In his rebuttal testimony, UGI 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 and from interruptible to firm PGC service caused by the recent divergence of oil and gas prices, and the statistical imprecision associated with the limited analysis performed. UGI Statement No. 2-R, pp. 3-12.

The Settlement fairly resolves this issue by permitting UGI 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. Paragraph 36 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.

E. Design Cold Temperatures Other Than Peak Day

On pages 8 through 12 of his direct testimony, Mr. Mierzwa reviewed how UGI 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 UGI's primary service territory (Mr. Mierzwa did not challenge the seasonal requirements of UGI's Hazelton service area), and concluded that UGI should only plan for winter seasons about ten percent colder than normal.

In his rebuttal testimony, Mr. Beasten argued that UGI's method for calculating seasonal requirements was consistent with the methodology adopted in UGI's 2007 PGC

proceeding to compute the peak day requirements of UGI's primary service territory, and noted the potential costs and reliability risks if UGI did not have sufficient gas supply assets in place to meet seasonal requirements. UGI Statement No. 2-R, pp. 12-13.

Under paragraphs 31 and 32 of the Settlement, UGI 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 UGI 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 colder than normal. This is fair resolution of this issue that strikes an appropriate balance between security and least cost.

F. RFP Revisions

On pages 5-17 of his direct testimony, Mr. Beasten described requests for proposals ("RFP") UGI planned to issue to evaluate potential replacements for two peaking service contracts set to expire on March 31, 2012 and a 22,155 Dth/day Dominion Transmission, Inc. ("Dominion") firm transportation contract set to expire on October 31, 2011. 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 (UGI Statement No. 2, p. 8, line 18), and would seek a no-notice capability that would provide flexibility to meet unanticipated changes in demand on an intra-day basis (UGI Statement No. 2, p. 11, line 6 through p. 12, line 2). Bidders in each of the RFP's would have three weeks to respond (UGI Statement No. 2, p. 8, lines 18-19; p. 14, line 20).

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, that UGI should not seek no notice service for the replacement of one of its existing peaking contracts since that contract did not provide for no notice service and argued that bidders in the RFP potential replacements to the peaking contracts should be afforded six months to respond since the contracts do not expire until March 31, 2012. OCA Statement No. 1, pp. 13-14.

In his rebuttal testimony Mr. Beasten noted, apart from his concerns about Mr. Mierzwa's peak day and seasonal requirements recommendations, that requiring no-notice service capabilities can be a least cost option since UGI would not have to contract for greater quantities of alternative services that may only be needed to meet occasional variations in demand (UGI Statement No. 2-R, p. 15, line 15 through p. 16, line 6). Mr. Beasten also noted that extending the RFP response time to six months would likely lead to fewer, and not more, offers since potential bidders were already well aware of UGI's expiring contracts and extending the response time to six months would not leave sufficient time to for a potential bidder wishing to construct facilities to provide a replacement service sufficient time after the completion of the RFP to complete the construction (UGI Statement No. 2-R, p. 12-13).

The Settlement reflects the adjustments UGI has agreed to make to its non-peak day design temperature requirements by providing that UGI will adjust its request in the RFPs to evaluate potential replacements for its peaking contracts to a five day, instead of an eight day, service (par. 33). The Settlement also reflects the resolution of the dispute over whether customer conservation is affecting UGI's peak day requirements by providing that UGI conduct two separate RFPs for potential replacements for its expiring peaking services. One RFP will seek a five-year service for a maximum daily quantity of

40,000 Dth, and the other will seek only a one-year service for a maximum daily quantity of 34,500 Dth (par. 33). Thus, if in future UGI PGCs it is determined that there is a long-term conservation trend that requires a reduction in UGI's peak day requirements, the second replacement service could not be renewed. UGI has also agreed to extend the RFP response time from three to four weeks (par. 33). Finally, the Settlement recognizes that UGI's existing contracts provide it with 80,000 Dth of no-notice service, and specifies that if UGI seeks to exceed this level it must demonstrate, through an RFP process, why the increase in the level of no-notice service is the least cost option, including reasonably expected off-system margins and capacity release revenues that would result from the availability of the no-notice service (par. 34). All other proposed provisions of the RFP process would remain as proposed by UGI (par. 35).

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

G. Supplier Group Issues

In his direct testimony Supplier Group witness James L. Crist recommended that: (1) capacity assigned by UGI 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 UGI'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 UGI witness Shaun M. Hart noted, amongst other things, that: (1) UGI cannot release peaking contracts and under FERC rules cannot release certain so-called section 7(c) contracts, including storage contracts (UGI Statement No. 3-R, pp. 8-10), (2) UGI 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 UGI had to re-call the storage contracts to perform its SOLR obligations, nor could UGI be assured of being able to find replacement supplies on design cold days in its market area (UGI Statement No. 3-R, pp 12-16), (3) Mr. Crist's proposals to release capacity at contract rates (UGI Statement No. 3-R, pp. 23-25), make releases voluntary (UGI Statement No. 3-R, pp. 28-29), or to release capacity on average monthly, rather than peak day, basis (UGI 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 (UGI 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 (UGI 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 UGI'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 benefit of acquiring winter supplies at summer prices, while preserving the ability of UGI to 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, UGI's Option Two rules will be modified to provide additional flexibility to Choice suppliers while still preserving the ability of UGI to meet its SOLR obligations. Specifically, Choice suppliers will be provided on a monthly basis with a bundled sale quantity, based on the projected usage of

their Choice customers under normal weather conditions, and will have additional flexibility to decide when they want to receive these bundled sales quantities throughout the month. In the event of colder than normal weather, UGI 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 UGI 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. The net effect of these Settlement provisions is to provide Choice suppliers with even more flexibility, while preserving the ability of UGI to (1) meet its SOLR obligations, (2) avoiding 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 sales supported by PGC assets before that date, the Settlement provides for a proportionate sharing with Choice suppliers 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.

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

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

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

without modification.

Respectfully submitted,



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Counsel for UGI Utilities, Inc. –
Gas Division

Dated: August 23, 2011

APPENDIX E
(OTS Statement in Support)

1. On June 1, 2011, UGI filed copies of its definitive filing under Section 1307(f) of the Public Utility Code and said Commission regulations. This definitive filing proposes a no change to their PGC (1) rates and a decrease of \$0.19 per Mcf to their PGC (2) rate, both placed into effect on June 1, 2011. On June 9, 2010, 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 2011 Section 1307(f) cases of the three (3) affiliated UGI Companies - UGI Penn Natural Gas, Inc. at Docket No. R-2011-2238943; UGI Central Penn Gas, Inc. at Docket No. R-2011-2238949 and the instant UGI Utilities, Inc. - Gas Division 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 by UGI Industrial Intervenors ("UGIIP"), an group of large volume customers receiving transportation and

related services from UGI.² 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.

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 UGI 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.

² 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.

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.

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.³

8. Along with the other terms and conditions to the settlement agreed to by UGI to settle these this particular proceeding is a provision of particular interest to BI&E whereby UGI has agreed that in its PGC compliance filing in this proceeding, it will reflect 1 Bcf 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 1 Bcf projection. Stipulation, paragraph 26.

9. 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

³ OTS Statement No. 1, the Direct Testimony of Dorothy Morrissey, OTS Exhibit No. 1, the Exhibit to Accompany the Direct Testimony of Dorothy Morrissey and OTS Statement No. 2-R, the Rebuttal Testimony of Michael Gruber had been previously distributed to the ALJ and the parties during the proceeding. A signed affirmation on behalf of Ms. Morrissey by her supervisor (as she was out of the state) accompanied her testimony and exhibit and a signed affirmation of Mr. Gruber accompanied his testimony introduced and admitted into the record at the hearing.

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 UGI 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 UGI 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 reviewed the Company's projected gas costs and determined that they are reasonable projections. We note that the experienced costs are subject to

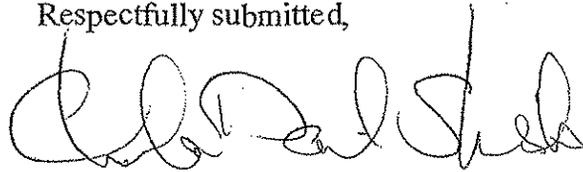
review in a future Section 1307(f) proceeding and, as such, ratepayers are protected in that UGI gains no unwarranted financial advantages through its projected gas purchases and projected gas purchasing policies.

e. Commission acceptance of this settlement does not preclude future Commission investigation and/or litigation of UGI'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 2011 proceeding involving UGI Utilities, Inc. - Gas Division, docketed at R-2011-2238953.

Respectfully submitted,



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Dated: August 23, 2011

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APPENDIX F
(OCA Statement in Support)

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2011-2238953
	:	
UGI Utilities, Inc. – Gas Division	:	

STATEMENT OF THE
OFFICE OF CONSUMER ADVOCATE
IN SUPPORT OF SETTLEMENT

The Office of Consumer Advocate (OCA), one of the signatory parties to the proposed 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 Utilities, Inc. – Gas Division (UGI or Company) submitted its pre-filing information in support of its annual reconciliation of purchased gas cost (PGC) rates. UGI's pre-filed information did not indicate the anticipated effect of the annual PGC reconciliation on existing rates. On May 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 rate of \$8.49/Mcf for the residential class, which is no change from its current PGC rate.

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 UGI. 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) UGI's design peak day demand, 2) UGI's design cold conditions, and 3) UGI'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 UGI'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, Mr. Mierzwa expressed his concerns as to the Company's design peak day demand. OCA St. 1 at 4-8. Specifically, Mr. Mierzwa stated that his analysis of the design peak day demand of UGI'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 the 2011 and for future periods beyond the 2011-2012 winter season. Id. at 8. Mr. Mierzwa recommended that UGI 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 33, 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 ¶ 33. 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 UGI are too extreme (cold) and are, therefore, unreasonable. OCA St. 1 at 8-12. UGI's design cold conditions represent a winter which is 25 percent colder than average winter temperatures. Id. at 11-12. Mr. Mierzwa recommended that that UGI use a winter season which is 10 percent colder than average for its winter season capacity planning purposes. Id. at 12. 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 UGI's actual experience. Id.

Under the proposed Settlement, UGI would adopt a new statistical procedure to calculate the design cold winter it uses for seasonal capacity planning purposes. Settlement at ¶¶ 32, 34. That procedure is described in detail in Appendix B and results in the use of a winter which is 11.3 percent colder than normal in its Primary service territory and 11.8 percent colder than normal in its Secondary service territory. These design cold winters are more reasonable

than the 25 percent colder than normal design winters UGI had been using for seasonal capacity planning purposes. The new design cold winter planning assumptions will reduce the amount of winter season capacity required by UGI, allowing UGI to reduce the number of days of peaking service it will seek through the RFP process from 8 days to 5 days. Settlement at ¶ 34. Although the amount is not quantifiable at this time, the reduction in the number of days of peaking service will reduce the demand charges paid by PGC customers.

Pipeline Contracting Issues

The final issue addressed by Mr. Mierzwa in his Direct Testimony dealt with UGI's proposal to issue RFPs for replacement interstate pipeline capacity. OCA St. 1 at 12-14. Mr. Mierzwa had the following concerns: (1) UGI's replacement contract quantities were, as explained above, based on its overstated design peak day and extreme winter season demand forecasts; (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; and (3) UGI was including unnecessary provisions regarding no-notice service for Peaking Contract 1. Id. at 13.

Settlement paragraphs 34 and 35 address the OCA's concerns in great length. Instead of contracting for 74,500 Dth (for 2012-2013) and 85,400 Dth (for the remaining four years on the contract) of peaking capacity for a five year term, the Settlement splits the service into two contracts -- one for 40,000 Dth for five years, and 34,500 Dth for one year, so that if it is determined that UGI's design peak day capacity is overstated, the 34,500 Dth can be eliminated after one year. Settlement at ¶ 34. Thus PGC customers will not be charged an extra four years worth of costs. Further, the settlement requires UGI 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. Settlement at ¶ 35. Finally, bidders will receive an extra week to submit their RFPs. Settlement at ¶ 34.

Supplier Group Issues

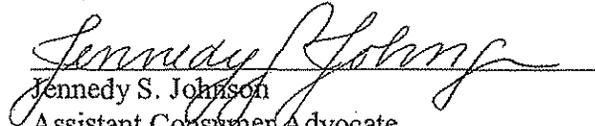
In his Rebuttal testimony, Mr. Mierzwa addressed Supplier Group witness Crist's testimony regarding interstate pipeline capacity release and the assignment provisions of UGI's customer choice program. OCA St. 1-R at 1-7. Mr. Mierzwa had the following concerns with the Supplier Group testimony: (1) the 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 UGI'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 UGI'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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Date: August 23, 2011
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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 UGI Gas and its affiliates, UGI Penn Natural Gas, Inc. ('PNG') 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 UGI Gas 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 37. *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 62 percent of the Company's design day demands. For the other 38 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*, UGI Gas Tariff, Section B(7), at 140(a) and 140(b).

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, e.g.*, 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 UGI Gas 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 UGI Gas 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, UGI Gas 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 UGI Gas imposes on the Choice suppliers.

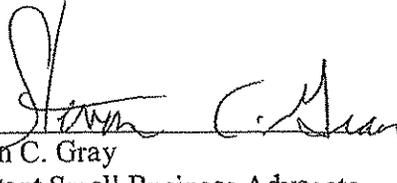
OSBA Statement No. 1, at 9 (emphasis added).

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,



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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-2011-2238953
	:	
UGI Utilities, Inc. - Gas Division	:	

**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**

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

assets in question are priced at the average weighted cost of all UGI's capacity assets, both base-load and peaking, as well as storage and other assets, even though no storage or peaking assets are assigned. UGI'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 UGI'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 UGI has under contract so that UGI 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 (including applicable firm transportation customers) and Choice customers on a proportionate basis.

7. In discussing these five points, the Supplier Group, through its witness, expressed the position that UGI'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 UGI does plan to release (interstate pipeline capacity), based on peak day requirements, even though UGI 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 UGI 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

UGI's capacity assignment program that improve it. These changes should provide NGSs with flexibility that they do not have under the existing (and proposed) UGI 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 UGI on a monthly basis in a manner that is comparable to the bundled sales program that is presently included in the UGI 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 UGI, 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 sale 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 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 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 UGI 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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DATED: August 22, 2011

APPENDIX I
(UGIH Letter of Non-Opposition)



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August 23, 2011

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

**RE: Pennsylvania Public Utility Commission v. UGI Utilities, Inc. – Gas Division;
Docket No. R-2011-2238953**

Dear Judge Melillo:

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

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

Very truly yours,

McNEES WALLACE & NURICK LLC

By *Vasiliki Karandrikas*
Pamela C. Polacek (I.D. No. 78276)
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Counsel to UGI Industrial Intervenors

VK/sds
Enclosure

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