



17 North Second Street
12th Floor
Harrisburg, PA 17101-1601
717-731-1970 Main
717-731-1985 Main Fax
www.postschell.com

Anthony D. Kanagy

akanagy@postschell.com
717-612-6034 Direct
717-731-1985 Direct Fax
File #: 2270/152373

August 13, 2012

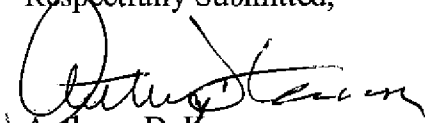
Rosemary Chiavetta
Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

RE: Pennsylvania Public Utility Commission v. UGI Utilities, Inc. - Gas Division
Docket Nos. R-2012-2302220, C-2012-2304841 and C-2012-2305769

Dear Secretary Chiavetta:

Enclosed please find the Stipulation in Settlement of Section 1307(f) Rate Investigation for the above-referenced proceeding. Copies have been served on all parties as indicated on the Certificate of Service.

Respectfully Submitted,



Anthony D. Kanagy

ADK/skr

Enclosures

cc: Honorable Kandace F. Melillo
Certificate of Service

CERTIFICATE OF SERVICE

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

VIA E-MAIL AND FIRST CLASS MAIL

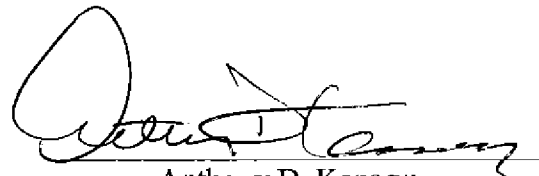
Richard A. Kanaskie Esquire
Allison C. Kaster, Esquire
Regina L. Matz, Esquire
Pennsylvania Public Utility Commission
Bureau of Investigation & Enforcement
Commonwealth Keystone Building
400 North Street, 2nd Floor West
PO Box 3265
Harrisburg, PA 17105-3265

Jennedy S. Johnson, Esquire
James A. Mullins, Esquire
Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923

Steven C. Gray, Esquire
Office of Small Business Advocate
300 North Second Street, Suite 1102
Harrisburg, PA 17101

Pamela C. Polacek, Esquire
Teresa K. Schmittberger, Esquire
McNees Wallace & Nurick LLC
100 Pine Street
PO Box 1166
Harrisburg, PA 17108-1166

Date: August 13, 2012



Anthony D. Kanagy

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY	:	
COMMISSION, ET AL.	:	
	:	Docket Nos. R-2012-2302220
v.	:	C-2012-2304841
	:	C-2012-2305769
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 (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), and the Office of Consumer Advocate (“OCA”), parties in the above-captioned proceeding (hereinafter individually referred to as “Party” or collectively referred to as the “Parties”), hereby join in this Stipulation In Settlement Of Section 1307(f) Rate Investigation (“Settlement”),¹ and hereby request that Administrative Law Judge Kandace F. Melillo (the “ALJ”) and the Commission:

(1) authorize UGI to file a tariff supplement for service rendered on or after December 1, 2012, that implements, subject to updates and tariff modifications traditionally

¹ The Office of Small Business Advocate (“OSBA”) and the UGI Industrial Intervenors (“UGI II”), the only other parties in this proceeding, have indicated that they do not oppose this settlement.

performed on December 1, the rates set forth in Attachments (1) - (4) of its June 1, 2012 PGC filing; 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 Attachments (1) - (4) of its June 1, 2012 PGC filing reduce UGI's June 1, 2012 PGC(1) rate of \$6.3842 per Mcf applicable to Rate R customers to \$6.0237 per Mcf, and June 1, 2012 PGC(1) rate of \$6.3768 per Mcf applicable to Rate N customers to \$6.0123 per Mcf. The rates set forth in Attachments (1) - (4) of its June 1, 2012 PGC filing also result in a reduction from the average June 1, 2012 PGC(2) rate of \$5.3796 per Mcf to \$3.9382 per Mcf, or a reduction of \$1.4414 per Mcf.

Attached as Appendices A, B, and C, hereto are statements in support of the Settlement submitted by UGI, I&E, and OCA. Attached as Appendix D is the statement of position of OSBA. Attached as Appendix E 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 May 1, 2012, UGI provided the Commission with the prefiling information required by 52 Pa. Code § 53.64(c) and 52 Pa. Code § 53.65.

3. On or about May 15, 2012, counsel for I&E filed a Notice of Appearance.

4. On or about May 16, 2012 the OCA filed a notice of appearance, formal complaint, and public statement, docketed at C-2012-2304841.

5. On or about May 21, 2012, the OSBA filed a notice of appearance, formal complaint, and public statement docketed at C-2012-2305769.

6. On June 1, 2012, in accordance with the schedule for Section 1307(f) filings established by the Commission, UGI submitted its 2012 PGC filing to the Commission, with proposed modifications to UGI's Tariff Gas - Pa. P.U.C. No. 5, to become effective December 1, 2012.

7. UGI's June 1, 2012 PGC filing proposed to implement a PGC(1) rate of \$6.0237/Mcf for Rate R customers, \$6.0123/Mcf for Rate N customers, and an average PGC(2) rate of \$3.9382/Mcf, effective December 1, 2012.

8. UGI also filed the direct written testimony of its supporting witnesses with its PGC filing on June 1, 2012.

9. On or about June 11, 2012, UGIII filed a petition to intervene which was granted during the prehearing conference conducted on June 14, 2012 and confirmed in a subsequent Order issued by the ALJ on June 15, 2012.

10. On June 14, 2012, a consolidated Prehearing Conference in the UGI Penn Natural Gas, Inc. ("PNG") PGC proceeding at Docket No. R-2012-2302221, UGI Central Penn Gas, Inc.

("CPG") PGC proceeding at Docket No. R-2012-2302219 and UGI PGC proceeding was conducted by ALJ Melillo.

11. 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.

12. On June 19, 2012, PNG, CPG and UGI jointly filed a Petition for a Protective Order for the three PGC proceedings.

13. By Order issued June 20, 2012, the ALJ granted the Petition for a Protective Order.

14. In accordance with the procedural schedule established by the ALJ, the OCA filed written direct testimony on July 6, 2012; UGI filed rebuttal testimony on July 20, 2012; and the OCA filed surrebuttal testimony on July 26, 2012.

15. On July 19, 2012, the ALJ issued an order consolidating Docket Nos. C-2012-2304841 and C-2012-2305769 with Docket No. R-2012-2302220.

16. 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.

17. On July 27, 2012, UGI notified the ALJ that an agreement in principle of all issues in the UGI PGC proceeding had been reached.

18. On July 30, 2012, the ALJ suspended the briefing schedule.

19. A hearing was held on July 31, 2012. At the hearing, the parties' testimony and exhibits were admitted into the record by stipulation with accompanying signed affidavits or affirmations of the sponsoring witnesses.

III. GENERAL PROVISIONS OF SETTLEMENT

20. The Parties agree the rates for the recovery of the purchased gas costs of UGI should be revised effective December 1, 2012, subject to updates, to reflect the rates set forth in Attachments (1) - (4) of its June 1, 2012 PGC filing.

21. In the 2012 PGC filing, the estimated peak day demand for the winter of 2013-2014 was 625,578 Dth, or 11,664 Dth higher than the estimated peak day demand of 613,914 for the winter of 2012-2013.

22. The firm supply portfolio, including third party capacity from large transportation customers for the winter of 2012-2013, is 619,566 Dth. This includes a peaking contract with a maximum daily quantity of 34,500 Dth and a term that ends March 31, 2013. The peaking contract for 34,500 Dth has a roll-over provision that provides UGI with the right to extend the contract year to year on the same terms with an adjustment to the demand charge based on the U.S. Gross Domestic Product Implicit Price Deflator. In order to extend the contract, UGI must provide notice 60 days prior to the end of the contract, or by January 30, 2013.

23. Excluding the peaking contract of 34,500 Dth, the firm supply portfolio for the winter of 2013-2014 would be 585,066 Dth (619,566 – 34,500), or 40,512 Dth (625,578 – 585,066) less than the estimated demand of 625,578.

24. UGI will exercise its right to extend the peaking contract with a maximum daily quantity of 34,500 Dth for one year which would encompass the winter of 2013-2014, thereby allowing UGI to cover the majority of its 40,512 Dth shortfall for the 2013-2014 winter season while preserving UGI's ability to shed the contract if UGI's peak day demand is revised downward either voluntarily or in subsequent PGC proceedings.

25. The Parties agree not to challenge the one year extension of the peaking contract, with a maximum daily quantity of 34,500 Dth, in UGI's 2013 PGC proceeding. Before the 2013 PGC proceeding, UGI will issue an RFP for a peaking service with a maximum daily quantity of 6,012 Dth (40,512 Dth – 34,500 Dth) and a term of only one year, thereby allowing UGI to cover its 2013-2014 winter season. After the RFP for 6,012 Dth of peaking is completed, all Parties would have the right to review and challenge all aspects of UGI's decisions in choosing the peaking contract in UGI's 2013 PGC proceeding, except for (1) the need for the service, (2) the quantities requested in the RFPs as described above, (3) the timing of the RFP and (4) the inclusion of the No-Notice Service provisions in the proposed RFP.

26. Neither the acceptance by the Parties of UGI's design day demand pursuant to 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.

27. For customers converting from interruptible service, UGI will not assign converting customers to firm interstate pipeline capacity unless those customers affirmatively choose such an assignment.

28. All other provisions of UGI's 1307(f) proceeding are approved as set forth in UGI's May 1, 2012 filing, UGI's June 1, 2012 filing and the testimony filed in support thereof.

IV. STANDARDS AND FINDINGS

29. 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, 2012. The new tariff rates are intended to become effective December 1, 2012.

A. Historic Reconciliation Period Standards

30. With respect to UGI's gas purchases and gas purchasing practices during the twelve-month historic reconciliation period ending March 31, 2012, 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, 2012, 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. 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 2012 PGC Rates:

1. June 1, 2012 Filing, Attachments (1) - (4).
2. June 1, 2012 Filing, "E" Factor Calculations: Filing, Attachment (4).
3. June 1, 2012 Filing, Written Direct Testimony of William J. McAllister.

H. Reliability (§1317(c)): Prefiling, Section 14.

B. Projected Period Findings

31. With respect to the twelve-month period beginning December 1, 2012, 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, 2012, 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, 2012 through November 30, 2012, 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.

32. If, in an appropriate future proceeding, gas purchases and gas purchasing practices relating to the period December 1, 2012, through November 30, 2013 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, 2012, except as provided in Section III above.

33. The Parties also agree that future examination of the gas costs relating to the period April 1, 2012 through November 30, 2013 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

34. 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, 2012, the terms and conditions of this Settlement and the rates contained in Attachments (1) - (4) of its June 1, 2012 PGC filing, as modified to reflect updates and tariff modifications traditionally performed on December 1 effective for service rendered on and after December 1, 2012, 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.

35. 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.

36. 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.

37. 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.

38. 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.

39. 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, 2012.

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

41. This Settlement may be executed in counterparts.

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

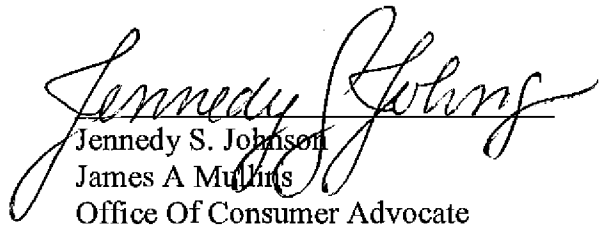
1. That Administrative Law Judge Kandace F. Melillo and the Commission approve this Settlement, including all terms and conditions thereof.

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 Attachments (1) - (4) of UGI's June 1, 2012 PGC filing, 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, 2012.

4. That the Commission terminate and mark closed its inquiry and investigation at Docket Nos. R-2012-2302220, C-2012-2304841 and C-2012-2305769.

Respectfully submitted,



Jennedy S. Johnson
James A Mullins
Office Of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101-1921

Counsel for the Office of Consumer Advocate



Mark C. Morrow / AM
Chief Regulatory Counsel
UGI Corporation
460 North Gulph Road
King of Prussia, PA 19406

Counsel for UGI Central Penn Gas, Inc.



Richard A. Kanaskie
Allison C. Kaster
Regina L. Matz
Bureau of Investigation and Enforcement
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

Counsel for the Bureau of Investigation and
Enforcement

Dated: August 13, 2012

Appendix A

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY	:	
COMMISSION, ET AL.	:	
	:	Docket Nos. R-2012-2302220
v.	:	C-2012-2304841
	:	C-2012-2305769
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 (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), and the Office of Consumer Advocate (“OCA”).¹ The Settlement has been entered into or not opposed by all parties and resolves all issues in this proceeding. UGI believes that this Settlement is in the best interests of UGI, its customers and the Joint Petitioners, and therefore is in the public interest and should be approved.

The Settlement of this proceeding was achieved only after a comprehensive investigation of UGI’s gas procurement practices. UGI responded to numerous formal

¹ In addition, the Office of Small Business Advocate (“OSBA”) and the UGI Industrial Intervenors (“UGI II”), the only other parties to this proceeding, have indicated that they do not support or oppose the Settlement.

discovery requests, many of which had multiple subparts. Several rounds of testimony were also filed, including UGI's and OCA's direct testimony; UGI's rebuttal testimony; and OCA's 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. Rates

Under the Settlement, the Parties have agreed that UGI's PGC rates to become effective December 1, 2012 are approved as set forth in its June 1, 2012 filing, subject to any updates. Under Section 1307(f), the Commission 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. 66 Pa. C.S. §§ 1307(f); 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. 66 Pa. C.S. § 1318. 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, 2012.

The testimony of William J. McAllister, UGI St. No. 1, described how UGI calculates its gas costs, including the C, S, and E factors. Mr. McAllister's testimony also provided information on the Revenue Sharing Incentive Mechanism, retainage rates, and the Tennessee Pipeline Refund. With regard to the retainage rates, consistent with the terms of the 2009 PGC Settlement, Docket No. R-2009-2105911, UGI's current retainage rate is 0.7%. UGI St. No. 1, p. 14. The testimony of David C. Beasten, UGI St.

No. 2, addressed UGI's gas supply and storage contracts, including its practices regarding peaking service. In his testimony on peaking service, Mr. Beasten described the RFP process used by UGI in the historic test year, as well as changes to the RFP for peaking service that will be implemented for winter 2012-2013. UGI St. No. 2, pp. 4-12.

The new tariff rates are intended to become effective December 1, 2012. As proposed in the filing, the rates that will be effective on December 1, 2012 are lower than UGI's currently effective rates. For the reasons explained above and in the Company's testimony, the ALJ and the Commission should approve the rates set forth in the Company's original filing as agreed to in the Settlement.

B. Peak Day

The Company's supply portfolio, including third party capacity from large transportation customers for the winter of 2012-2013, is 619,566 Dth. This includes a peaking contract with a maximum daily quantity of 34,500 Dth and a term that ends March 31, 2013. UGI St. No. 2, p. 4. The peaking contract for 34,500 Dth has a roll-over provision that provides UGI with the right to extend the contract year to year on the same terms with an adjustment to the demand charge based on the U.S. Gross Domestic Product Implicit Price Deflator. UGI St. No. 2, pp. 11-12. In order to extend the contract, UGI must provide notice 60 days prior to the end of the contract, or by January 30, 2013.

In the 2012 PGC filing, and in the direct testimony of UGI witness Shaun Hart, UGI's estimated peak day demand for the winter of 2013-2014 is 625,578 Dth. UGI St. No. 3, p. 6. Based upon its demand projections, the Company proposed to extend the 34,500 Dth peaking contract for the 2013-2014 season.

In his direct testimony, Mr. Mierzwa argued that UGI's peak day demand projections did not sufficiently consider the impact of conservation on peak day demand. OCA St. No. 1, p. 8. As a result of the calculations performed by Mr. Mierzwa, he argued that UGI should not extend its peaking contract for 34,500 Dth per day. In addition, Mr. Mierzwa argued that UGI should not issue an RFP for 25,000 Dth, which he believed would save PGC customers \$8,166,667. *Id.* at p. 10.

In his rebuttal testimony, Mr. Hart disagreed with Mr. Mierzwa's analysis and conclusions regarding peak day demand. UGI St. No. 3-R, pp. 4-7. Mr. Hart noted that Mr. Mierzwa was focused on the winter of 2012-2013 and that the 34,500 Dth peaking contract discussed by Mr. Mierzwa in his testimony would be for the winter of 2013-2014. UGI St. No. 3-R, p. 11. In addition, Mr. Hart explained that the historical demand levels were significantly affected by the severe recession and one of the warmest winters on record and that Mr. Mierzwa had not accounted for these factors in assessing future demand. UGI St. No. 3-R, pp. 3-12. Moreover, Mr. Hart noted that Mr. Mierzwa's proposed adjustment of \$8,166,667 was based on the incorrect assumption that UGI would be entering into a new peaking service contract for 25,000 Dth per day. UGI St. No. 3-R, p. 2. Mr. Hart explained that the 25,000 Dth per day peaking contract was an existing contract with a term of November 1, 2009 to March 31, 2017, and has been reviewed in prior PGC proceedings. UGI St. No. 3-R, p. 3.

In his surrebuttal testimony, Mr. Mierzwa withdrew his recommendation for the adjustment related to the 25,000 Dth per day contract for the winter of 2012-2013. OCA St. No. 1-SR, p. 3. He also recommended that the Company wait until data regarding

peak demand for the winter of 2012-2013 was available for capacity planning purpose before renewing the 34,500 Dth contract. OCA St. No. 1-SR, p. 7.

The Settlement resolves the peak day issue by providing that UGI will exercise its right to extend the peaking contract with a maximum daily quantity of 34,500 Dth for one year which would encompass the winter of 2013-2014. Excluding the peaking contract of 34,500 Dth would result in the firm supply portfolio for the winter of 2013-2014 being 40,512 Dth less than the Company's estimated demand for this time period. Therefore, including the 34,500 Dth is necessary to provide sufficient supply. The settlement will allow UGI to cover the majority of its 40,512 Dth shortfall for the 2013-2014 winter season while preserving UGI's ability to shed the contract if UGI's peak day demand is revised downward either voluntarily or in subsequent PGC proceedings. The Parties have also agreed not to challenge the one year extension of the peaking contract, with a maximum daily quantity of 34,500 Dth, in UGI's 2013 PGC proceeding.

In addition, before the 2013 PGC proceeding, UGI will issue an RFP for a peaking service with a maximum daily quantity of 6,012 Dth (40,512 Dth – 34,500 Dth) and a term of only one year, which will allow UGI to cover its 2013-2014 winter season demand, as projected in the 2012 PGC filing and described in the testimony of UGI witness Shaun Hart. After the RFP for 6,012 Dth of peaking is completed, all Parties would have the right to review and challenge all aspects of UGI's decisions in choosing the peaking contract in UGI's 2013 PGC proceeding, except for (1) the need for the service, (2) the quantities requested in the RFPs as described above, (3) the timing of the RFP and (4) the inclusion of the No-Notice Service provisions in the proposed RFP. This

will allow UGI to meet its projected peak day demand for the 2013-2014 winter season, and will focus the issues for review in the 2013 PGC proceeding.

These Settlement revisions fairly resolve the OCA's concerns regarding UGI's peak day capacity projections for the winter of 2013-2014 and should be approved.

C. Interruptible Service Customers

On page 4 of his direct testimony, Mr. Hart discussed the conversion of interruptible service customers to firm transportation service. Under the terms of UGI's 1995 rate case, UGI assigns firm capacity to customers that convert from interruptible to firm service. UGI St. No. 3-R, p. 13. In testimony, Mr. Hart noted that UGI had recently experienced a number of conversions from interruptible service to firm service rates. UGI St. No. 3, p. 4.

In his direct testimony, Mr. Mierzwa argued that PGC customers are harmed by UGI's practice of assigning firm capacity to former interruptible customers. Under the Company's Commission-approved practice, it assigns firm capacity to these customers and provides a credit to the PGC. Mr. Mierzwa argued that the credit provided to the PGC was substantially less than the cost to acquire capacity for new firm customers. OCA St. No. 1, p. 12. Mr. Meirzwa calculated the cost differential between the additional capacity costs and the credit to the PGC to be \$6.42 per Dth (\$20.42-\$14.00). OCA St. No. 1, p. 12. Therefore, Mr. Mierzwa recommended that UGI terminate its practice of assigning firm pipeline capacity to interruptible service customers that convert to firm service. OCA St. No. 1, p. 13.

In his rebuttal testimony, Mr. Hart stated that assignment of firm capacity to customers that convert from interruptible service was addressed as part of the Commission's decision in UGI's 1995 base rate case at Docket No. R-00953297 (Order

entered August 31, 1995). In the Settlement agreement, the parties to that proceeding agreed that the Company could continue to assign firm capacity service to customers that convert to firm service. UGI St. No. 3-R, p. 13. Further, Mr. Hart demonstrated that the actual differential between the costs to acquire new capacity and the credit to the PGC was much less than the differential calculated by Mr. Mierzwa. Mr. Hart calculated the actual cost differential as \$1.415 per Dth. UGI St. No. 3-R, p. 15. Mr. Hart also explained that this differential would likely be negligible after off-system sale credits were factored into the equation and after considering contributions to the system that new firm customers would provide. UGI St. No. 3-R, p. 15.

In Mr. Mierzwa's surrebuttal testimony, he agreed with Mr. Hart's assessment of the applicability of the 1995 base rate case, and as a solution recommended that UGI only assign firm capacity to converting interruptible service customers upon their request. OCA St. No. 1-SR, p. 7. All parties agreed UGI will not assign converting customers capacity unless those customers affirmatively choose such an assignment.

This Settlement provision fairly resolves the issue raised by OCA regarding assignment of firm capacity to customers that convert from interruptible service. Moreover, this resolution is consistent with the Companies 1995 base rate proceeding, and should be approved.

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

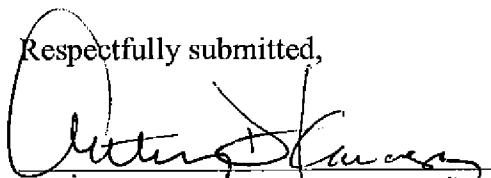
amount of expense and effort that will be required by the Joint Petitioners and the Commission to bring this matter to a conclusion. Furthermore, the Joint Petitioners and the Commission will be able to avoid the substantial effort and expense that would be incurred in continuing to litigate this proceeding, 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.

Mark C. Morrow (ID # 33590)
UGI Corporation
460 North Gulph Road
King of Prussia, PA 19406
Phone: 610-768-9638
Fax: 610-992-3258
E-mail: morrowm@ugicorp.com

Respectfully submitted,



David B. MacGregor (ID # 28804)
Post & Schell, P.C.
Four Penn Center
1600 John F. Kennedy Boulevard
Philadelphia, PA 19103-2808
Phone: 215-587-1197
Fax: 215-320-4879
E-mail: dmacgregor@postschell.com

Anthony D. Kanagy (ID # 85522)
Post & Schell, P.C.
17 North Second Street
12th Floor
Harrisburg, PA 17101-1601
Phone: 717-612-6034
Fax: 717-731-1985
E-mail: akanagy@postschell.com

Of Counsel:

Post & Schell, P.C.

Dated: August 13, 2012

Counsel for UGI Utilities, Inc. – Gas Division

Appendix B

including those resolved through negotiated settlements, it is incumbent upon I&E to ensure that the public interest is served and to comment on how the amicable resolution of any such proceeding will benefit the public interest. The request for approval of the Stipulation is based on the I&E conclusion that the Settlement meets all the legal and regulatory standards necessary for approval. “The prime determinant in the consideration of a proposed Settlement is whether or not it is in the public interest.”¹ I&E concludes that this unopposed filing meets these criteria.

2. Prior to agreeing to the instant Stipulation, I&E conducted a thorough review of the Company’s filing and supporting information, discovery responses and submitted filing data. Based on its analysis of the Company’s entire filing, I&E determined that the submission of testimony was unnecessary.

3. The Settlement includes the acknowledgement that the natural gas costs incurred by UGI during the historic period were done so under adherence to a least cost fuel procurement policy. The I&E analysis in this proceeding confirms this representation. A least cost procurement policy protects ratepayers from unnecessary and imprudent gas costs and prevents the Company from making a profit on gas supplies provided to its Purchased Gas Cost (“PGC”) customers.

4. The Stipulation also provides that the natural gas costs that UGI expects to incur in the upcoming period will be based on the Company’s adherence to its established least cost fuel procurement policy. The Company’s diligence in adhering to a least cost procurement strategy benefits customers directly in their gas bills. The Company’s

¹ *Pennsylvania Public Utility Commission v. Philadelphia Electric Company*, 60 PA PUC 1, 22 (1985).

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

5. The I&E review of the Company's annual PGC filing includes an analysis of its claimed E-Factor to ensure that it was done in accordance with established Commission practices. The proper calculation of the E-Factor protects ratepayers by ensuring that rates are adjusted appropriately to reflect the impact that these factors have on purchased gas costs. I&E is satisfied that the Company's E-Factor calculations are appropriate and accurate and conform to proper regulatory practices.

6. In addition, the Company's projected gas costs ("C-Factor") are also planned in accordance with established Commission practices as determined by the I&E review. This adherence to accepted regulatory principles aids ratepayers in that the Company's purchased gas practices are being accomplished with the balanced interests of the Company and its ratepayers being considered. The actual implementation of the Company's plan will be reviewed in next year's PGC proceeding. I&E opines that ratepayers are protected in that UGI does not gain any unwarranted financial advantage through its gas purchasing practices.

7. The Settlement does not propose any adjustments to the Company's claimed PGC based on its reported Lost and Unaccounted for Gas ("LUFG"). I&E has reviewed the

Company's filing and believes that UGI's reported LUFG is reasonable based on the standards presented in this proceeding. No party has presented any evidence indicating that the LUFG reported in the instant proceeding is excessive or unreasonable. A reasonable amount of LUFG is expected in a natural gas distribution system. As the costs associated with this gas are recovered from ratepayers through the PGC it is necessary to take appropriate measures to control this expense. If acceptable levels of LUFG are not achieved, ratepayers will be protected from unjust and unreasonable rates by the regulatory provision that allows for the denial of the recovery of costs associated with imprudent Company practices. I&E opines that UGI's LUFG levels are reasonable and no action or recommendation is necessary in this proceeding.

8. The Retainage percentage applied to transportation customers will reflect the appropriate level of LUFG and Company Use ("CU") gas. The establishment of the proper Retainage levels is necessary to ensure that transportation customers contribute an adequate, but not excessive, amount of gas to compensate for the corresponding system wide LUFG as well as Company Use gas. This practice of establishing proper Retainage percentages eliminates the unwarranted shifting of responsibility for LUFG and CU between retail and transportation customers. Proper Retainage levels equalize the responsibilities of the rate classifications and protect all ratepayers by ensuring equitable contributions to account for LUFG and CU. The Retainage percentage applied to UGI's transportation customers in this proceeding represents the appropriate level of its responsibility for LUFG and CU. As discussed above, establishment of the proper Retainage percentages protects PGC customers and transportation customers from unwarranted subsidies.

9. The Settlement Agreement provides that UGI may place into effect the natural gas supply rates as proposed and identified in Attachments 1 – 4 of its June 1, 2012 PGC filing. The proposed rates are subject to quarterly updates, with limited exceptions, as required by the Commission's Regulations. The I&E analysis in this proceeding supports that these rates are just and reasonable, accurately reflect the costs of its purchased natural gas and are based on sound regulatory practices. As such, I&E opines that these rates are in the public interest and should be approved.

10. I&E and the signatories to this Stipulation are in agreement that the Company will adhere to the purchasing plan as established by the data and calculations provided in the Company's testimony and associated exhibits as no party has submitted evidence challenging any provision. The purchasing plan provides reasonable protections for ratepayers and enables the company to adhere to the regulatory requirements in acquiring supplies for its customers. The Company's projections and plans are reasonable and are in the public interest. Therefore, they should be adopted as presented.

11. Although I&E did not file testimony, I&E fully supports the Settlement and believes that any concerns have been satisfactorily resolved through discovery and discussions with the Company and, where necessary, are incorporated in the Settlement. Line by line identification of the ultimate resolution of every averment is not necessary as I&E represents that the Settlement maintains the proper balance of the interests of all parties. I&E is satisfied that no further action is necessary and considers its investigation of this filing complete.

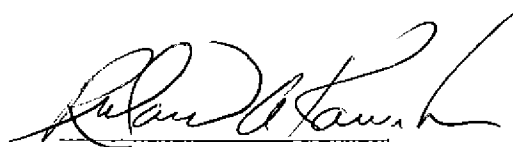
CONCLUSION

12. Based upon I&E's analysis of the filing, acceptance of this proposed Stipulation is in the public interest as the provisions adequately protect the interests of all affected parties, including the signatories to this Settlement.

13. The Bureau of Investigation and Enforcement is satisfied that the provisions and data contained in the Company's annual PGC filing, as confirmed by this Stipulation, accurately support the finding that the Company's purchased gas costs and its practices adequately protect the public interest.

WHEREFORE, the Commission's Bureau of Investigation and Enforcement represents that it supports the *Stipulation in Settlement of Section 1307(f) Rate Investigation* as being in the public interest and respectfully requests that Administrative Law Judge Kandace F. Melillo recommend, and the Commission subsequently approve, the foregoing Settlement, including all terms and conditions contained therein.

Respectfully submitted,



Richard A. Kanaskie
Deputy Chief Prosecutor
PA Attorney I.D. #80409

Bureau of Investigation and Enforcement
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265
(717) 787-1976

Dated August 13, 2012

Appendix C

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2012-2302220
	:	
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 May 1, 2012, 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 16, 2012, the OCA filed its Formal Complaint in this matter. On June 1, 2012, the Company made its definitive filing. The Company proposes a PGC rate of \$6.02/Mcf for the residential class, which is a \$0.36/Mcf decrease from its current PGC rate.

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. ALJ Melillo scheduled a Prehearing Conference in this matter for June 14, 2012.

As part of its investigation and analysis of the Company's filings, the OCA served multiple sets of discovery on UGI. On July 6, 2011, the OCA submitted the Direct Testimony of Jerome D. Mierzwa. That testimony set forth the OCA's recommendations as to UGI's design peak day demand and UGI's current practice of providing interruptible customers that convert to firm service with access to firm interstate pipeline capacity. On July 26, 2012, the OCA submitted the Rebuttal Testimony of Mr. Mierzwa that addressed the same issues.

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 3-10, OCA St. 1-S at 2-7. 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 2012 and for future periods beyond the 2012-2013 winter season. OCA St. 1 at 10, OCA St. 1-S at 3-5. 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 Paragraphs 21-25, which state that the Company will continue its procurement of 34,500 Dth for one year. Settlement at ¶ 21-25. By extending the procurement for one year, instead of three, the Company and the Parties will be able to evaluate the data in the Company's 2013 PGC proceeding and propose modifications to the Company's design peak day demand, if necessary. These provisions address the OCA's concerns regarding design peak day as they will allow for statistical analyses of the data from the entire 2012-2013 period to analyze design day projections.

Interruptible Service Issue

The other issue addressed by Mr. Mierzwa in his Direct Testimony dealt with UGI's practice of assigning firm pipeline capacity to converting interruptible customers. OCA St. 1 at 11-13, OCA St. 1-S at 7-8. The OCA's concern with this practice is that the Company's claimed increased design day demands are, at least in part, a result of the conversion of interruptible customers to firm service. OCA St. 1 at 12. The assignment of capacity to those customers can be problematic because it results in the Company contracting for peaking service that costs more than the credit the PGC customers will receive for the capacity assigned to converting customers—thereby harming the PGC. Id.

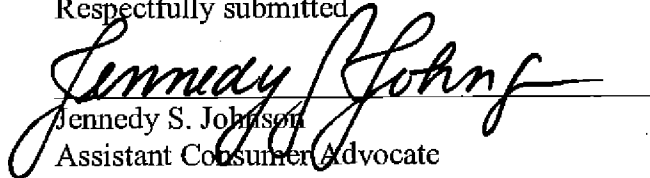
Settlement paragraph 27 addresses the OCA's concern by providing that UGI will not assign firm interstate pipeline capacity to converting customers unless those customers affirmatively chose such an assignment. Settlement at ¶ 34. As a result, these customers, who previously elected to rely on less expensive interruptible pipeline capacity and interruptible distribution service by UGI, may continue to rely on interruptible pipeline capacity. To the

extent these customers continue to rely on interruptible pipeline capacity, it will be unnecessary for UGI to acquire more expensive firm pipeline capacity which reduces the adverse impact of UGI assignment practice on PGC customers.

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



Kennedy S. Johnson

Assistant Consumer Advocate

PA Attorney I.D. # 203098

E-Mail: JJohnson@paoca.org

James A. Mullins

Assistant Consumer Advocate

PA Attorney I.D. # 77066

E-Mail: JMullins@paoca.org

Counsel for:

Irwin A. Popowsky

Consumer Advocate

Office of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
Fax: (717) 783-7152

Date: August 13, 2012
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Appendix D

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	
	:	
v.	:	DOCKET NO. R-2012-2302220
	:	
UGI UTILITIES, INC.	:	

**STATEMENT OF POSITION
OF THE
OFFICE OF SMALL BUSINESS ADVOCATE**

Introduction

The Small Business Advocate is authorized and directed to represent the interests of the small business consumers of utility services in the Commonwealth of Pennsylvania under the provisions of the Small Business Advocate Act, Act 181 of 1988, 73 P.S. §§ 399.41 - 399.50. Pursuant to that statutory authority, the Office of Small Business Advocate (“OSBA”) filed a complaint in the above-captioned proceeding on May 21, 2012.

History of the Proceeding

On June 1, 2012, UGI Utilities, Inc. (“UGI” or the “Company”) made its 2012 Section 1307(f) Gas Cost Rate (“GCR”) filing.

On June 14, 2012, a prehearing conference was held before Administrative Law Judge (“ALJ”) Kandace F. Melillo.

On July 31, 2012, an evidentiary hearing was held before ALJ Melillo.

On August 1, 2012, ALJ Melillo distributed an Order Suspending Procedural Schedule, in Part, and Providing for Settlement Procedures (“*Settlement Order*”).

The OSBA submits this Statement of Position in compliance with the *Settlement Order*.

Statement of Position

In its complaint, the OSBA stated, as follows:

The OSBA files this Formal Complaint to ensure that the Company's proposed purchased gas cost rates are consistent with a least cost fuel procurement policy and do not result in rates and charges that are excessive, unjust or unreasonable, discriminatory or otherwise contrary to Commission regulation or policy.

OSBA Complaint, Paragraph 7, at 2.

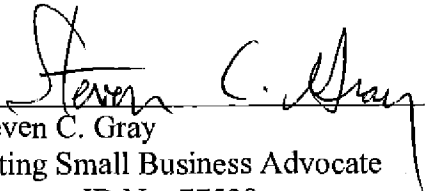
The OSBA conducted an investigation into the Company's 2012 Section 1307(f) filing which included a review of the filings, testimony, and interrogatory responses served in this proceeding, focusing on issues in which small business customers could potentially be treated unfairly. This review was aided by the assistance of OSBA consultant Robert D. Knecht. Based upon this review, the OSBA did not find any reason to object to the Company's purchased gas cost ("PGC") rates for UGI's small business customers, and did not identify any instance in which UGI's small business customers were treated in an unduly discriminatory manner by the Company.

Furthermore, the OSBA actively participated in the negotiations that led to the proposed settlement. Based on that participation, the OSBA concluded that the specific provisions negotiated into the settlement were neither detrimental nor unduly discriminatory to small business customers. The OSBA does not oppose the proposed settlement, as the settlement produces PGC rates for UGI's small business customers that are just, reasonable, and not unduly discriminatory.

Conclusion

The OSBA has investigated UGI's 2012 Section 1307(f) filing, as well as the proposed settlement to that Section 1307(f) proceeding, and has found no basis to dispute that the resulting PGC rates for UGI's small business customers are just, reasonable and not unduly discriminatory.

Respectfully submitted,


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

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

Dated: August 13, 2012

Appendix E



100 Pine Street • PO Box 1166 • Harrisburg, PA 17108-1166
Tel: 717.232.8000 • Fax: 717.237.5300

Teresa K. Schmittberger
Direct Dial: 717.237.5270
Direct Fax: 717.260.1688
tschmittberger@mwn.com

August 9, 2012

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

**RE: Pennsylvania Public Utility Commission v. UGI Utilities, Inc. – Gas Division;
Docket No. R-2012-2302220**

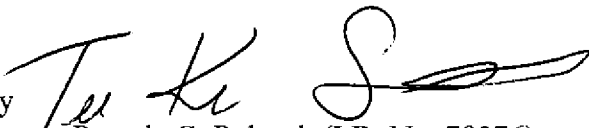
Dear Judge Melillo:

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 
Pamela C. Polacek (I.D. No. 78276)
Vasiliki Karandrikas (I.D. No. 89711)
Teresa K. Schmittberger (I.D. No. 311082)

Counsel to UGI Industrial Intervenors

TKS/sds