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File #: 2270/152373

August 10, 2012

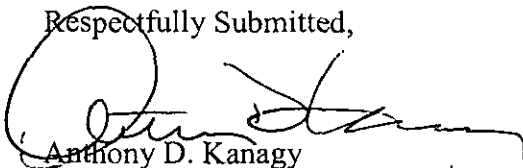
Rosemary Chiavetta  
Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street, 2nd Floor North  
P.O. Box 3265  
Harrisburg, PA 17105-3265

**RE: Pennsylvania Public Utility Commission v. UGI Central Penn Gas, Inc.  
Docket Nos. R-2012-2302219, C-2012-2304842 and C-2012-2305780**

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

SECRETARY'S BUREAU  
PA PUC

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ALLENTOWN HARRISBURG LANCASTER PHILADELPHIA PITTSBURGH PRINCETON WASHINGTON, D.C.

A PENNSYLVANIA PROFESSIONAL CORPORATION

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2012 AUG 10 PM 3:30 BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION  
PA PUC  
SECRETARY'S BUREAU

PENNSYLVANIA PUBLIC UTILITY :  
COMMISSION, ET AL. :  
v. :  
UGI CENTRAL PENN GAS, INC. :

Docket Nos. R-2012-2302219  
C-2012-2304842  
C-2012-2304780

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

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TO ADMINISTRATIVE LAW JUDGE KANDACE F. MELILLO:

**I. INTRODUCTION**

UGI Central Penn Gas, Inc. ("CPG") and the Bureau of Investigation and Enforcement ("I&E") of the Pennsylvania Public Utility Commission ("Commission"), parties in the above-captioned proceeding (hereinafter individually referred to as "Party" or collectively referred to as the "Parties"), hereby join in this Stipulation In Settlement Of Section 1307(f) Rate Investigation ("Settlement"),<sup>1</sup> and hereby request that Administrative Law Judge Kandace F. Melillo (the "ALJ") and the Commission:

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

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<sup>1</sup> The Office of Consumer Advocate ("OCA"), Office of Small Business Advocate ("OSBA") and the Central Penn Gas Large Users Group ("CPGLUG"), the only other parties in this proceeding, have indicated that they do not oppose the 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 66 Pa.C.S. § 1318.

The rates set forth in Attachments (1) - (4) of its June 1, 2012 PGC filing reduce CPG's June 1, 2012 PGC rates of \$5.1860 per Mcf applicable to Rate R (Residential Service) customers to \$4.7404 per Mcf, or a reduction of \$0.45 per Mcf.<sup>2</sup> The rates set forth in Attachments (1) - (4) of its June 1, 2012 PGC filing also reduce CPG's June 1, 2012 PGC rate of \$5.1292 per Dth applicable to Rates N (Non-Residential Service), GL (Gas Lighting Service), CIAC (Air Conditioning Service) and IS (Interruptible Service) customers to \$4.7023 per Mcf, or a reduction of \$0.43 per Mcf.

Attached as Appendices A and B, hereto are statements in support of the Settlement submitted by CPG and I&E. Attached as Appendices C and D are the statements of position submitted by the OCA and the OSBA. Attached as Appendix E is a letter from CPGLUG indicating that it neither supports nor opposes this Settlement.

## II. BACKGROUND

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

1. CPG 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

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<sup>2</sup> Pursuant to the Settlement Agreement entered into by the parties in CPG's 2011 Base Rate proceeding, at Docket No. R-2010-2214415, CPG has converted all gas measurements from Dth to Mcf. See *Pa. PUC v. UGI Central Penn Gas, Inc.*, Docket No. R-2010-2214415 (Order entered on August 19, 2011), Settlement ¶ 22 and CPG Statement No. 5, pp. 8-10.

- 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, CPG 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, the 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-2012-2304842.

5. On or about May 21, 2012, the OSBA filed a notice of appearance, formal complaint, and public statement, docketed at C-2012-2305780.

6. On June 1, 2012, in accordance with the schedule for Section 1307(f) filings established by the Commission, CPG submitted its 2012 PGC filing to the Commission, with proposed modifications to CPG’s Tariff Gas - Pa. P.U.C. No. 4, to become effective December 1, 2012.

7. CPG’s June 1, 2012 PGC filing proposed to implement a PGC rate of \$4.7404/Mcf applicable to Rate R customers, and a PGC rate of \$4.7023/Mcf applicable to Rate N, GL, CIAC and IS customers, effective December 1, 2012.

8. CPG 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, CPGLUG filed a petition to intervene that was granted during the prehearing conference conducted on June 14, 2012. Said intervention was confirmed in a subsequent Order issued by the ALJ on June 15, 2012.

10. On June 14, 2012, a consolidated Prehearing Conference in the CPG, UGI Penn Natural Gas, Inc. (“PNG”) PGC proceeding at Docket No. R-2012-2302221, and the UGI Utilities, Inc. – Gas Division (“UGI”) PGC proceeding at Docket No. R-2012-2302220 was conducted by ALJ Melillo.

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

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. The due date for other parties’ direct testimony, as established in the Order issued on June 15, 2012, was due July 6, 2012. No other party filed direct testimony in this proceeding.

15. On July 19, 2012, the ALJ issued an order consolidating Docket Nos. C-2012-2304842 and C-2012-2305780 with Docket No. R-2012-2302219.

16. As noted above, no party challenged CPG’s PGC filing. On July 20, 2012, counsel for CPG sought guidance from the ALJ regarding how to proceed with the resolution of this proceeding. On July 23, 2012, the ALJ advised the parties to file a Settlement Petition and statements in support or letters of non-opposition with the Commission.

17. On July 30, 2012, the ALJ suspended the briefing schedule in this proceeding.

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

19. Pursuant to the ALJ's directive, the Parties hereby submit this Settlement.

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

20. The Parties agree that the rates for the recovery of the purchased gas costs of CPG 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. All provisions of CPG's 1307(f) proceeding are approved as set forth in CPG's May 1, 2012 filing, CPG's June 1, 2012 filing and the testimony filed in support thereof.

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

22. 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 CPG may recover for a previous 12-month period under the standards set forth in Section 1318. In addition, because CPG 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**

23. With respect to CPG'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 CPG 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, CPG 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 CPG in support of the required statutory findings can be found in the following sections of the CPG 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, Written Direct Testimony of William J. McAllister.
- H. Reliability (§1317(c)): Prefiling, Section 14.

B. Projected Period Findings

24. 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 CPG 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.

25. 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.

26. 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 CPG'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

27. 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.

28. 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.

29. Except as otherwise specifically provided in this document, 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.

30. 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.

31. 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 document, this 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.

32. 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.

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

34. This Settlement may be executed in counterparts.

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

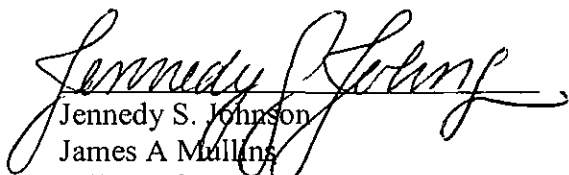
1. That Administrative Law Judge Kandace F. Melillo and the Commission approve this Settlement, including all terms and conditions thereof.

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 CPG's June 1, 2012 PGC filing, as modified to reflect updates and tariff modifications traditionally performed as part of CPG's December 1 PGC compliance filings, and (b) directing CPG to file a final tariff implementing such rates for gas service rendered by CPG on and after December 1, 2012.

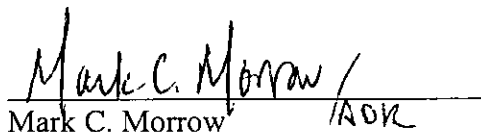
4. That the Commission terminate and mark closed its inquiry and investigation at Docket Nos. R-2012-2302219, C-2012-2304842 and C-2012-2305780.

Respectfully submitted,



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Counsel for the Bureau of Investigation and  
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Dated: August 10, 2012

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PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

Appendix A

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY	:	
COMMISSION, ET AL.	:	
	:	Docket Nos. R-2012-2302219
v.	:	C-2012-2304842
	:	C-2012-2305780
UGI CENTRAL PENN GAS, INC.	:	

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

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TO ADMINISTRATIVE LAW JUDGE KANDACE F. MELILLO:

**I. INTRODUCTION**

UGI Central Penn Gas, Inc. ("CPG" or the "Company") hereby submits this Statement in Support of the Stipulation in Settlement of Section 1307(f) Rate Investigation ("Settlement") entered into by CPG and the Bureau of Investigation and Enforcement ("I&E").<sup>1</sup> The Settlement has been entered into or not opposed by all parties and resolves all issues in this proceeding. CPG believes that this Settlement is in the best interests of CPG, its customers and the Joint Petitioners, and therefore is in the public interest and should be approved.

The parties to this proceeding have reviewed CPG's purchased gas costs and purchasing practices and have concluded that both are consistent with the standards set forth in the Public Utility Code. No issues were raised by the parties to this proceeding.

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<sup>1</sup> In addition, the Office of Consumer Advocate ("OCA"), the Office of Small Business Advocate ("OSBA") and the CPG Large Users Group ("CPGLUG"), the only other parties in this proceeding, have indicated that they do not oppose the Settlement.

CPG submits that the Settlement fairly balances the interests of the Company and its customers, and therefore is in the public interest. For the reasons set forth below, the Settlement is just and reasonable and should be approved.

## **II. SETTLEMENT TERMS**

### **A. CPG Has Carried Its Burden Of Proof**

CPG presented its direct case in this matter, and has provided the requisite evidentiary support necessary for the ALJ and the Commission to make the statutory findings required under Sections 1307(f) and 1318, 66 Pa. C.S. §§ 1307(f); 1318. No Signatory Party, or any other party, presented opposing testimony. Therefore, the information contained in CPG's direct case should be accepted as offered. Further, the information contained in CPG's direct case meets the Commission's regulatory requirements under Section 1307(f) and 1318, 66 Pa. C.S. §§ 1307(f); 1318. Therefore, CPG has met its burden of proof in this matter, and the ALJ and the Commission should approve the Settlement in its entirety.

### **B. The Rates And Other Provisions Proposed By CPG In Its Filing Are In The Public Interest.**

Under Section 1307(f), the Commission must determine what portion of the gas costs CPG may recover for a previous 12-month period under the standards set forth in Section 1318. In addition, because CPG 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.

CPG provided all of the necessary calculations and data to support both its historic and proposed rates in its May 1, 2012 Prefiling, and its June 1, 2012 Filing. Further, CPG supported the rates calculated in the June 1, 2012 Filing, as well as its gas purchasing practices, in the testimony that was filed on June 1, 2012. The testimony of William J. McAllister, CPG Statement No. 1, described how CPG calculates its gas costs, including the C, S, and E factors. Mr. McAllister's testimony also provided information on choice customer volumes, 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-2009-2105909, CPG's current retainage rate is two percent (2.0%). CPG St. No. 1, p. 9.

The testimony of David C. Beasten, CPG Statement No. 2, addressed CPG'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 CPG in the historic test year, as well as changes to the RFP for peaking service that will be implemented for winter 2012-2013. These modifications are described on page 25 of Mr. Beasten's testimony. Shaun Hart provided CPG Statement No. 3, which focused primarily on CPG's peak day demand policies and practices. In his testimony on peak day demand, Mr. Hart laid out CPG's projected firm peak day demand for the winter of 2012-2013, which is 12,238 dekatherms lower than the projected firm peak day demand for the winter of 2011-2012. CPG St. No. 3, p. 2. Mr. Hart's testimony also described the factors which have contributed to the reduction in demand. CPG St. No. 3, pp. 2-5.

As proposed in the filing, the rates that will be effective on December 1, 2012 are lower than CPG's currently effective rates. All of the parties involved in this case had

the opportunity to review the data filed by CPG. None of those parties had any objections to CPG's rates, calculations, or gas purchasing practices. This consensus shows that CPG's rates and practices are reasonable and in the public interest. As a result, the ALJ and the Commission should approve the Stipulation in Settlement of CPG's 1307(f) proceeding.

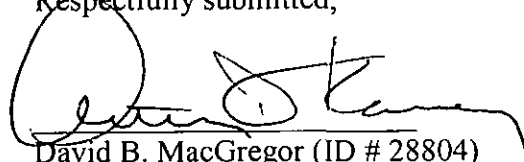
### III. CONCLUSION

As explained above, the Settlement is in the public interest and should be approved. 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 contained in the filing and in the testimony filed by CPG 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. CPG 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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Of Counsel:

Post & Schell, P.C.

Counsel for UGI Central Penn Gas,  
Inc.

Dated: August 10, 2012

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PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

**Appendix B**

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
v.	:	R-2012-2302219
	:	
UGI Central Penn Gas, Inc.	:	

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**BUREAU OF INVESTIGATION AND ENFORCEMENT  
STATEMENT IN SUPPORT OF  
STIPULATION IN SETTLEMENT  
OF SECTION 1307(f) RATE INVESTIGATION**

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**TO ADMINISTRATIVE LAW JUDGE KANDACE F. MELILLO:**

The Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), by and through its Prosecutor Richard A. Kanaskie, hereby respectfully submits that the terms and conditions of the foregoing *Stipulation in Settlement of Section 1307(f) Rate Investigation* (“Stipulation” or “Settlement”) are in the public interest and represent a fair, just, reasonable and equitable balance of the interest of UGI Central Penn Gas (“UGI CPG” or “Company”) and its customers. In support of this position, I&E offers the following enumerated Comments:

**INTRODUCTION**

1. I&E is charged with the representation of the public interest in proceedings relating to rates, rate-related services and application proceedings affecting the public interest held before the Commission. Consequently, in all contested proceedings

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.”<sup>1</sup> 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 CPG 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 CPG 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

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<sup>1</sup> *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 CPG'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 CPG 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 CPG'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 CPG'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 CPG 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, apparently, the active parties to this proceeding are in agreement that the Company will adhere to the purchasing plan as established by the data and calculations provided in the Company's testimony and associated exhibits 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 all issues have been satisfactorily resolved through discovery and discussions with the Company and 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.

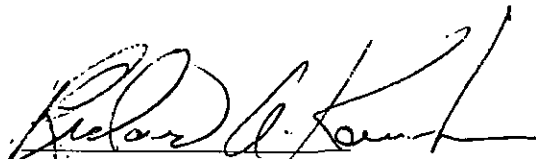
## CONCLUSION

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 Agreement.

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 10, 2012

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Appendix C

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2012-230221
	:	
UGI Central Penn Gas, Inc. 1307(f)	:	

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STATEMENT OF POSITION OF THE  
OFFICE OF CONSUMER ADVOCATE  
RE: STIPULATION IN SETTLEMENT

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The Office of Consumer Advocate (OCA), one of the signatory parties to the proposed Stipulation in Settlement of Section 1307(f) Rate Investigation (Stipulation) in the above-captioned docket, files this Statement of Position in connection with the proposed Stipulation.

On May 1, 2012, pursuant to Sections 53.64 and 53.65 of the Commission's Rules and Regulations, UGI Central Penn Gas, Inc. (CPG or Company) submitted its pre-filing information in support of its annual reconciliation of purchased gas cost (PGC) rates. CPG'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 stating that it would participate in the matter in order 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. On June 1, 2012, the Company made its definitive filing. The Company proposed a PGC rate of \$4.7404/Mcf for the residential class, which is a decrease of \$0.4456/Mcf 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 held a Prehearing Conference in this matter on June 14, 2012 at which a procedural schedule was established for the case.

The OCA retained an expert, Jerome D. Mierzwa, to analyze CPG's filings. Mr. Mierzwa has been the OCA's witness in CPG's annual PGC proceedings for the past several years.<sup>1</sup> As part of Mr. Mierzwa's analysis, the OCA issued two sets of interrogatories to the Company. On the basis of Mr. Mierzwa's analysis of the Company's filing and its responses to the OCA's interrogatories, Mr. Mierzwa found no issues upon which to contest CPG's 2012 PGC filing. In addition, Mr. Mierzwa determined that there were no recurring issues stemming from prior PGC cases. Accordingly, on the date set for the filing of Direct Testimony by Complainants and Intervenors, the OCA submitted a letter stating that it would not be filing Direct Testimony.

In Section IV of the Stipulation, the Company lists various findings of fact and findings in connection with the statutory standards applicable to this proceeding, namely

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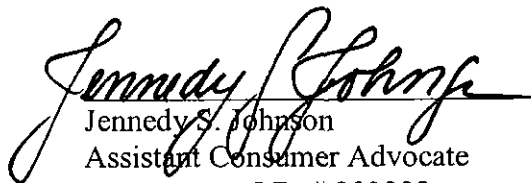
<sup>1</sup> Mr. Mierzwa is a principal and Vice President of Exeter Associates, Inc. He holds a Bachelor of Science Degree in Marketing and a Masters Degree in Business Administration with a concentration in finance. He was previously employed with National Fuel Gas Distribution and NFG Supply where he conducted various financial and statistical analyses related to the Company's market research activity and state regulatory affairs and was responsible for utility cost of service and rate design analysis, expense and revenue requirement forecasting and activities related to federal regulation.

Since joining Exeter Associates, his assignments have included evaluating the gas purchasing practices and policies of natural gas utilities, utility class cost of service and rate design analysis, sales and rate forecasting, performance-based incentive regulation, revenue requirement analysis, the unbundling of utility services and the evaluation of customer choice natural gas transportation programs. He has provided testimony on more than 100 occasions in proceedings before the Federal Energy Regulatory Commission and utility regulatory commissions in Delaware, Georgia, Illinois, Indiana, Louisiana, Maine, Montana, Nevada, New Jersey, Ohio, Rhode Island, Texas and Virginia, as well as before this Commission.

Sections 1307(f), 1317 and 1318 of the Public Utility Code. The OCA does not contest the proposed the findings of fact. With respect to the proposed findings relative to the statutory standards, the OCA agrees that the Company has met the applicable statutory standards for all relevant periods covered by this proceeding, *i.e.*, the historical and reconciliation period and the interim and projected periods referenced in Section IV of the Stipulation and CPG Ex. 1. With respect to the calculation of the 2012 PGC rates (Section IV.G.), as noted above the OCA has reviewed these rates and does not object to or contest them.

In consideration of the foregoing discussion, the OCA agrees that the various findings set forth in the Stipulation should be adopted by the Commission and that the PGC rates proposed by the Company to take effect December 1, 2012 should be approved.

Respectfully Submitted,



Jennady S. Johnson  
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DATED: August 10, 2012

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Appendix D

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

<b>PENNSYLVANIA PUBLIC UTILITY COMMISSION</b>	:	
	:	
<b>v.</b>	:	<b>DOCKET NO. R-2012-2302219</b>
	:	
<b>UGI CENTRAL PENN GAS, INC.</b>	:	

**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 Central Penn Gas, Inc. (“CPG” 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.

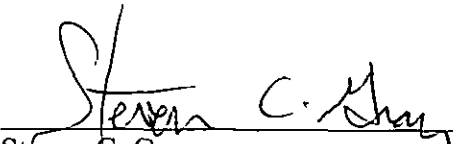
The OSBA conducted an investigation into the Company's 2012 Section 1307(f) filing which included a review of the filings, testimony, and interrogatory responses served in this proceeding, focusing on issues in which small business customers could potentially be treated unfairly. This review was aided 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 CPG's small business customers, and did not identify any instance in which CPG'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 CPG's small business customers that are just, reasonable, and not unduly discriminatory.

**Conclusion**

The OSBA has investigated CPG'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 CPG'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 10, 2012



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August 9, 2012

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PA PUBLIC UTILITY COMMISSION  
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Honorable Kandace F. Melillo  
Administrative Law Judge  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street, 2<sup>nd</sup> Floor West  
Harrisburg, PA 17120

**RE: Pennsylvania Public Utility Commission v. UGI Central Penn Gas, Inc.;**  
**Docket No. R-2012-2302219**

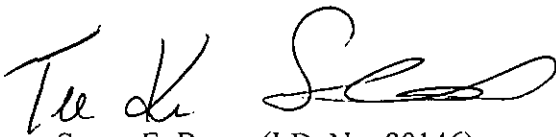
Dear Judge Melillo:

Central Penn Gas Large Users Group ("CPGLUG"), 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   
Susan E. Bruce (I.D. No. 80146)  
Vasiliki Karandrikas (I.D. No. 89711)  
Teresa K. Schmittberger (I.D. No. 311082)

Counsel to Central Penn Gas Large Users Group

TKS/sds

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**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**

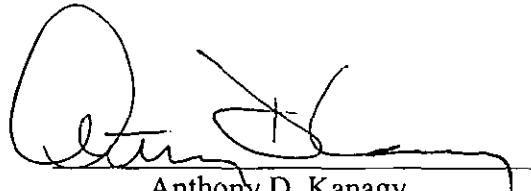
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Date: August 10, 2012



Anthony D. Kanagy

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