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August 16, 2016

VIA HAND DELIVERY

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

**Re: Pennsylvania Public Utility Commission v. UGI Penn Natural Gas, Inc.
Docket Nos. R-2016-2543314, C-2016-2544985, C-2016-2548847**

Dear Secretary Chiavetta:

Please find enclosed the Stipulation in Settlement of UGI Penn Natural Gas, Inc. for the above-referenced proceeding, accompanied by statements in support. Service has been made as indicated on the attached certificate of service.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Mark C. Morrow'. The signature is fluid and cursive, with a long horizontal stroke at the end.

Mark C. Morrow
Counsel for UGI Penn Natural Gas, Inc.

Enclosure

cc: Certificate of Service

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2. Attached as Appendices A, B, C, and D hereto, are statements in support of the Settlement submitted by PNG, I&E, OCA and OSBA.

II. BACKGROUND

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

4. On April 29, 2016, PNG submitted its preliminary Purchased Gas Cost ("PGC") data and exhibits supporting recovery of purchased gas costs with the Commission ("Book 1"), pursuant to section 1307(f) of the Pennsylvania Public Utility Code, 66 Pa.C.S. §1307(f) and the Commission's regulations at 52 Pa. Code §§ 53.64 — 53.65.

5. On May 12, 2016, OCA filed a Notice of Appearance and a Formal Complaint.

6. On May 12, 2016 I&E filed a Notice of Appearance.

7. On June 1, 2016, PNG submitted its definitive Purchased Gas Cost ("PGC") filings ("Book 2"), including direct testimony, and exhibits, with the Commission.

8. On June 2, 2016, the OSBA filed a Notice of Appearance and a formal complaint.

9. On Monday June 6, 2016 a telephonic Prehearing Conference was held before the ALJs. At the Prehearing Conference, the UGI Distribution Companies introduced UGI Penn Natural Gas, Inc. Exhibit 1 consisting of that Company's Book 1 and Book 2 filings. Copies were provided to the court reporter and the ALJs and PNG Exhibit 1 was so marked by the court reporter.

10. By Order dated June 6, 2016, the ALJs adopted a procedural schedule and consolidated the three Section 1307(f) proceedings filed at Docket Nos. R-2016-2543309 for UGI Utilities, Inc. – Gas Division (“UGI-Gas”), R-2016-2543311 for UGI Central Penn Gas, Inc. (“CPG”), and R-2016-2543314 for PNG and established a procedural schedule with hearing dates scheduled for July 25, 2016, and July 26, 2016.

11. On June 17, 2016 a Joint Petition for Protective Order was filed by CPG, PNG, and UGI-Gas, which was granted by Order dated June 20, 2016.

12. On June 28, 2016, in accordance with the procedural schedule, OCA and I&E submitted direct other-party testimony for each proceeding. Copies of the testimony were provided to all Parties and the ALJs.

13. In accordance with the procedural schedule, on July 12, 2016, PNG filed rebuttal testimony. Copies of the testimony were provided to all Parties and the ALJs.

14. The Parties held several settlement conferences in this proceeding. As a result of these conferences and the efforts of the Parties to examine the issues raised by the Parties, a settlement in principle was achieved by the Parties prior to the date for the evidentiary hearings. On July 21, 2016, the Parties advised ALJs Colwell and Haas of the settlement in principle.

15. The July 25, 2016 evidentiary hearing was held for the purpose of admitting the verified written testimony and exhibits into the record. The Parties’ testimony and exhibits were admitted into the record by stipulation with accompanying signed verifications of the sponsoring witnesses.¹

¹ PNG Statement 3-R was formally moved into the record by Order dated August 11, 2016 granting an evidence stipulation filed July 29, 2016.

III. GENERAL PROVISIONS OF SETTLEMENT

16. The Parties agree the rates for the recovery of the purchased gas costs of PNG will be \$3.0248 per Mcf, effective December 1, 2016, as proposed by PNG in Schedule A of its Book 2 filing – Computation of Purchased Gas Cost Rate effective Dec. 1, 2016, subject to updates and tariff modifications traditionally performed on December 1. The development of the PNG PGC rate is described in PNG Statement No. 1, the Direct Testimony of Tracy A. Hazenstab.

17. Starting September 1, 2017, the Company shall change its C-Factor Reconciliation approach, approved in the 2014 PGC settlement, at Docket R-2014-2420273, to calculate the Company's September 1st PGC C-Factor adjustment using a three-month remaining life volume. The Company's September 2017 quarterly PGC rate change will be capped at 15% with any amounts above this cap being brought forward for inclusion in the calculation of subsequent quarterly PGC Rate Adjustments.

18. PNG provided the results of the RFP for peaking service along with an analysis of the bids received to the public parties. The bid from UGI Energy Services, LLC ("UGIES") was the only conforming bid received. Based on the analysis and consistent with PNG's primary firm requirements and least-cost fuel procurement obligations, PNG shall be permitted to accept the UGIES offer.

19. The Company shall not be required to modify its peaking service contract payment schedule.

20. PNG shall be permitted to recover through its PGC rates (a) 87 percent of its facility costs and (b) 87 percent of the LNG commodity costs, for which the 87 percent is equal to the percentage share of supply used by PGC customers in Forest City during the period of April 1 through October 31 in 2016 and 2017 and (c) the remaining 13 percent of the LNG

commodity volumes multiplied by the monthly published Platt's Inside FERC Index for Tennessee Zone 4 300 Leg plus the applicable transportation cost to deliver the gas to PNG's city gate for natural gas that PNG would have incurred during the period April 1 through October 31 in 2016 and 2017.

IV. STANDARDS AND FINDINGS

21. This proceeding involves Commission review pursuant to Sections 1307 and 1318 of the Public Utility Code. Under Section 1307(f), the Commission, after hearing, must determine what portion of the gas costs PNG may recover for a previous 12-month period under the standards set forth in Section 1318. In addition, because PNG has filed tariffs proposing new PGC rates, the Commission must determine whether the requirements of Section 1318 can be met. This determination must precede Commission approval of the Company's proposed rates. The historic period reviewed in this proceeding is the twelve-month reconciliation period ending March 31, 2016. The new tariff rates are intended to become effective December 1, 2016.

A. Historic Reconciliation Period Standards

22. With respect to PNG's gas purchases and gas purchasing practices during the twelve-month historic reconciliation period ending March 31, 2016, all Parties agree, and request the Commission to find, that PNG has met the standard 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, 2016, PNG has met the requirements of Section 1318 of the Public Utility Code by pursuing a least-cost fuel procurement policy, consistent with its obligation to provide safe, adequate and reliable service

to its customer. Information submitted by PNG in support of the required statutory findings can be found in the following sections of PNG Exhibit 1:

- (a) FERC Participation (§1317(a)(1); §1318(a)(1)): Prefiling, Section 3
- (b) Supplier Negotiations/Renegotiations (§1317(a)(2); §1318(a)(2)): Prefiling, Sections 2 and 5.
- (c) Efforts to Obtain Lower Cost Supplies (§1317(a)(3); §1318(a)(3)): Prefiling, Sections 1, 2, and 5.
- (d) Withheld Supplies (§1317(a)(4); §1318(a)(4)): Prefiling, Section 5.
- (e) 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 2016 PGC Rates:
 - i) June 1, 2016, Filing, Schedule A – Computation of Purchased Gas Cost Rate effective Dec. 1, 2016;
 - ii) June 1, 2016, Filing, Schedule B (page 1) – Development of Projected Cost of Gas (C-Factor);
 - iii) June 1, 2016, Filing, Schedule B (pages 2-13) – Projected Supply Volumes, Rates, Costs 4/16 through 11/17;
 - iv) June 1, 2016, Filing, Schedule C – E-Factor Calculations;
 - v) June 1, 2016, Filing, Written Direct Testimony of Tracy A. Hazenstab, Senior Analyst – Rates.
- (h) Reliability (§1317(c)): Prefiling, Section 14.

B. Projected Period Findings

23. With respect to the twelve-month period beginning December 1, 2016, the period of time during which the proposed rates contained in this Settlement would be in effect, all Parties agree and request the Commission to find that PNG has satisfied each of the standards for a least cost procurement policy set forth in Section 1318 of the Public Utility Code, including the standards set forth in Sections 1318(a)(1), 1318(a)(2), 1318(a)(3), 1318(a)(4), 1318(b)(1), 1318(b)(2), and 1318(b)(3), based upon the evidence of record in this proceeding. Nevertheless, it is expressly understood and agreed that such findings, relating to the rates to become effective December 1, 2016, 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, 2016, through November 30, 2016, 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.

24. If, in an appropriate future proceeding, gas purchases and gas purchasing practices relating to the period December 1, 2016, through November 30, 2017 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, 2016, except as provided in Section III above.

25. The Parties also agree that future examination of the gas costs relating to the period April 1, 2016, through November 30, 2016, to determine whether PNG's experienced and

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

26. 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, 2016, the terms and conditions of this Settlement and the rates set forth in Appendix A of this Settlement, as modified to reflect updates and tariff modifications traditionally performed on December 1 effective for service rendered on and after December 1, 2016, 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.

27. 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.

28. 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.

29. 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.

30. 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.

31. 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, 2016.

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

33. This Settlement may be executed in counterparts.

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

1. That ALJs Susan D. Colwell and Steven K. Haas and the Commission approve this Settlement, including all terms and conditions thereof;

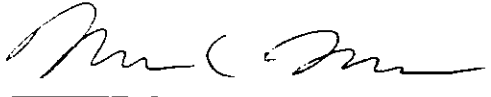
2. That the Commission enter a Final Order consistent with this Settlement that: (a) finds that there is sufficient evidence in the record for this Commission to make the findings

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 Section III hereto, as modified to reflect updates and tariff modifications traditionally performed as part of PNG's December 1 PGC compliance filings, and (b) directing PNG to file a final tariff implementing such rates for gas service rendered by PNG on and after December 1, 2016; and

4. That the Commission terminate and mark closed its inquiry and investigation at Docket Nos. R-2016-2543311, C-2016-2544985, and C-2016-2548847.

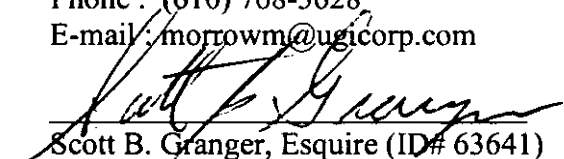
Respectfully submitted,



Date: 8-15-16

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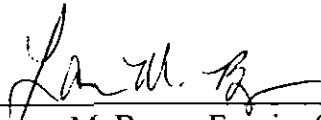
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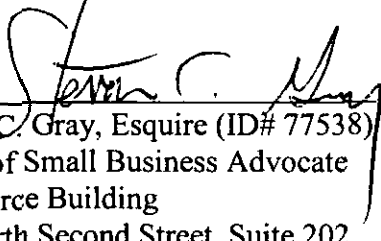
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Appendix A

(PNG Statement in Support)

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PENNSYLVANIA PUBLIC UTILITY
COMMISSION, et al.**

v.

UGI PENN NATURAL GAS, INC. §1307(f)

: Docket Nos. R-2016-2543314
: C-2016-2544985
: C-2016-2548845
:

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

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TO ADMINISTRATIVE LAW JUDGES SUSAN D. COLWELL AND STEVE K. HAAS:

I. INTRODUCTION

UGI Penn Natural Gas, Inc. ("PNG" or the "Company") hereby submits this Statement in Support of the Stipulation in Settlement of the Section 1307(f) Rate Investigation ("Settlement") entered into by PNG, the Bureau of Investigation & Enforcement ("I&E") of the Pennsylvania Public Utility Commission ("Commission"), the Office of Consumer Advocate ("OCA") and the Office of Small Business Advocate ("OSBA"), all parties in the above-captioned proceeding (hereinafter, individually referred to as "Party" or collectively referred to as the "Parties"). The Settlement has been entered into or not opposed by all Parties and resolves all issues in this proceeding. PNG believes that this Settlement is in the best interests of PNG, its customers and the Joint Petitioners, and therefore is in the public interest and should be approved.

The Settlement of this proceeding was achieved only after a comprehensive investigation of PNG's gas procurement practices. PNG responded to numerous and extensive formal discovery requests. Parties also filed multiple rounds of testimony, including PNG's direct

testimony, I&E's and OCA's direct testimony, PNG's rebuttal testimony and I&E'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 the Parties to this proceeding. For the reasons set forth below, the Settlement is just and reasonable and should be approved.

II. SETTLEMENT TERMS

A. C-Factor/E-Factor Calculation

Starting in September of 2015, the Company had calculated its September 1st PGC C-Factor adjustment using a six-month remaining life volume pursuant to the 2014 PGC settlement, at Docket No. R-2014-2420273. In direct testimony I&E recommended that the Company use an actual three-month remaining life to calculate the C-factor for the final quarter. I&E Stmt. 2, p. 8, lines 7-15. I&E's recommendation was made to address I&E's concern that basing the September 1st PGC reconciliation on a six-month remaining life volume created a possibility that the over/under collections would not be recovered by the rate set in the final quarter. I&E Stmt. 2, p. 8, line 17 – p. 9, line 2. I&E acknowledged that calculating the September 1st PGC reconciliation over a smaller volume (three months versus six months) could create more volatility (larger C-Factor adjustments) but that this was mitigated by the 2014 PGC Settlement's quarterly rate adjustment cap of 25% to limit volatility. I&E Stmt. 2, p. 9, lines 4-15.

In rebuttal testimony PNG opposed I&E's recommendation and argued that calculating the C-Factor over three months versus six months would exacerbate the inherent volatility in the C-Factor component because the first three months of the year are characterized by low sales volumes. PNG Stmt. 1-R, p. 3, line 20 – p. 4, line 21. In surrebuttal I&E did not contradict

PNG's argument that calculating the September 1st PGC reconciliation would increase volatility, but that this volatility would be capped by the Company's quarterly rate adjustment cap of 25 percent. I&E Stmt. No. 2-SR, p. 5, line 8 – p. 6, line 11.

After extensive negotiation between the parties, PNG and I&E came to a compromise position whereby PNG would calculate the September 1st PGC adjustment using a three-month remaining life volume but that the cap for the quarterly PGC rate change would be lowered to 15 percent. The precise settlement language agreed to by the parties is as follows:

Starting September 1, 2017, the Company shall change its C-Factor Reconciliation approach, approved in the 2014 PGC settlement, at Docket R-2014-2420279, to calculate the Company's September 1st PGC C-Factor adjustment using a three-month remaining life volume. The Company's September 2017 quarterly PGC rate change will be capped at 15% with any amounts above this cap being brought forward for inclusion in the calculation of subsequent quarterly PGC Rate Adjustments.

This settlement term addresses the Company's concerns about rate volatility while accepting I&E's recommendation on calculating the September 1st PGC adjustment using a three-month remaining life volume. It is therefore the product of compromise, is reasonable, is in the public interest, and should be approved.

B. PNG Peaking Contract Payment Schedule

PNG Book 2, Schedule B, lists three peaking service contracts the Company has entered into with UGI Energy Services, LLC ("UGIES") that allow PNG to call on supplies for a specific number of days during the November through March winter period.¹ Under one contract, PNG pays all of the demand charges in December, for another, PNG pays all of the demand charges in November and for the third PNG pays demand charges in November, December, January, February, and March. PNG Exhibit 1, Book 2, Schedule B, p. 12. In direct testimony, I&E's

¹ The peaking service contracts with UGIES are: (1) UGI ES Peak SVC I; (2) UGI ES Peak SVC II; (3) Peak SVC. "Peak SVC" is a peaking contract awarded to UGIES on the basis of a request for proposal concluded after the publication of Book 2.

expert Lisa Gumby recommended that the peak service schedules be modified to remove the November payment from the peak service contracts. I&E Stmt. No. 2, p. 8, lines 7-15. Ms. Gumby cited as support for that recommendation the fact that PNG gas costs exceeded actual revenues for November by \$1,078,020 creating an “under collection” and that this “mismatch” of costs and revenues may contribute to a larger E-Factor. I&E Stmt. No. 2, p. 7, lines 10 – 19.

PNG responded in rebuttal testimony that the November payment does not affect the over or under collection reconciliation because the Company determines over and under collections for the 12-months ended each March. If the Company is under collected, the Company applies an interest weighting based on a 6% interest rate that will be collected from ratepayers via the E-Factor. If the Company is over collected, the Company applies an interest weighting based on a 8% interest rate that will be collected from the ratepayers via the E-Factor.² PNG Stmt. No. 1-R, p. 5, lines 2 – 12. Because the PGC rate is based on a twelve-month period, no mismatch of revenues in any one particular month impacts the E-Factor. PNG Stmt. No. 2-R, p. 2, lines 10 – 23. To the contrary, moving the November payment to a later month has a negative impact on PGC customers due to the low interest weighting applied to over or under collection balances in November. PNG Stmt. No. 1-R, p. 6, lines 9-17.

In surrebuttal I&E agreed with PNG’s assertion that the interest weighting factor is higher in December than in November but argued that if the over and under collection in November was more closely matched, that would minimize interest factor. I&E Stmt. 2-SR, p. 9, lines 4-20.

The Settlement adopts the position of PNG and does not require the Company to change the payment schedule of its peaking contracts. The Settlement is reasonable for the reasons

² As the Company noted in rebuttal testimony, future interest rate calculations will be impacted by recently passed legislation that modifies the interest rate for both over collections and under collections. Act of Jun. 23, 2016, P.L. 355, No. 47.

explained herein. Thus, this Settlement term reasonably resolves this issue, is in the public interest and should be approved.

C. Peaking Service RFP Results

In its Book 2 filing, PNG identified that PNG's peak day capacity for Winter 2016-2017 is 11,230 dth per day short of peak day requirements, with a projected shortage increase of 2,754 dth per day in Winter 2016-2017 and an additional 2,596 dth per day through Winter 2020-2021. PNG Stmt. No. 3, p. 5, lines 7-11. PNG proposed to meet this shortfall through peaking services contract and issued a Request for Proposal ("RFP") for this peaking service contract.

In direct testimony, OCA witness Jerome D. Mierzwa accepted PNG's design day forecasts because the alternatives examined did not produce significantly different results. OCA Stmt. No. 1, p. 3, lines 1-6. In settlement negotiations between the parties, the Parties discussed the award of the peaking service contract to meet the peak day requirements. In rebuttal testimony PNG identified that it has selected UGIES as the winning bidder of the RFP because it was the only conforming offer that met the Company's primary firm requirements and is backed by primary firm assets. PNG Stmt. 2-R, p. 3, line 12 – p. 4, line 3. Subsequently, the Company provided OCA in informal discovery, the results of the RFP, along with an analysis of the bids received to the public parties. Based on the analysis and consistent with PNG's primary firm requirements and least-cost fuel procurement obligations, the parties have agreed that PNG shall be permitted to accept the UGIES offer. This Settlement term is reasonable, in the public interest and should be approved.

D. Forest City LNG Supply Costs

In its Book 2 filing, PNG explained that maintenance and upgrades to the eastern line portion of the Company's distribution system connecting the Uniondale gate station to Forest

City will require that the eastern line be taken out of service between the months of April through October during 2016 and 2017. PNG Stmt. 2, p. 8, lines 2-14. The Company has identified temporary liquefied natural gas (“LNG”) storage and vaporization as a supply solution for Forest City and sought recovery through its PGC rates for the costs incurred for the Forest City LNG supply service. PNG Stmt. 2, p. 8, line 15-p. 9, line 8.

In his direct testimony, OCA witness Jerome D. Mierzwa recommended limiting PNG’s recovery through its PGC rate to the same level of costs that would have been recovered through PGC rates as if the eastern line were not taken out of service. OCA Stmt. No. 1, p. 4, lines 20 – 23. PNG, in its rebuttal contended that LNG costs are “natural gas costs” under 66 Pa. Code § 1307(h) and eligible for recovery in the PGC rate. PNG Stmt. No. 2-R, p. 2, lines 9-28.

As the result of negotiation, the Company and OCA have come to a compromise position whereby PNG shall be permitted to recover those facility costs and commodity costs associated with the LNG supply costs needed to serve Forest City during the service interruptions. This settlement also allows PNG to recover through the PGC the cost for natural gas that transportation customers will continue to deliver to the PNG system during the service interruption, albeit not to the Uniondale gate station.

The settlement therefore states that PNG shall be permitted to recover through its PGC rates: (a) 87 percent of its facility costs and (b) 87 percent of the LNG commodity costs, for which the 87 percent is equal to the percentage share of supply used by PGC customers in Forest City during the period of April 1 through October 31 in 2016 and 2017 and (c) the remaining 13 percent of the LNG commodity volumes multiplied by the monthly published Platt’s Inside FERC Index for Tennessee Zone 4 300 Leg plus the applicable transportation cost to deliver the

gas to PNG's city gate for natural gas that PNG would have incurred during the period April 1 through October 31 in 2016 and 2017.

These terms addressing the recovery of costs associated with the service interruption to Forest City represent a reasonable compromise and will enable PNG to recover a portion of LNG supply costs it is incurring and will incur to maintain service to Forest City during the interruptions, are in the public interest and should be approved.

E. Statutory Findings

Under the Settlement, the Parties agree that the Commission should approve the renewals and changes in gas supply, pipeline, storage and peaking contracts and all other provisions of PNG's April 29, 2016 pre-filing, PNG's June 1, 2016 filing and the testimony, schedules and exhibits filed in support thereof, as modified by this Settlement. The Parties have thoroughly investigated PNG's PGC filing through discovery and the submission of testimony. PNG has addressed the contested issues through the specific provisions of the Settlement and requests that the ALJs and the Commission approve the Company's filing as modified by the Settlement.

III. CONCLUSION

As explained above, the Settlement is in the public interest and should be approved. The Settlement was achieved only after considerable investigation of PNG's gas procurement practices, through both discovery and submission of testimony by a number of parties. The Settlement, if approved by Administrative Law Judges Susan D. Colwell and Steven K. Haas, and the Commission, will reduce the amount of expense and effort that will be required by the Parties and the Commission to bring this matter to a conclusion, including preparation for and participation in hearings, preparation of briefs, reply briefs, exceptions, and replies to exceptions.

All of the Parties 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, PNG's April 29, 2016 submission of pre-filing information, PNG's June 1, 2016 PGC filing and in the testimony filed by PNG in this proceeding.

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

Respectfully submitted,



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Counsel for UGI Penn Natural Gas, Inc.

Dated: August 16, 2016

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Appendix B

(I&E Statement in Support)

I. BACKGROUND

1. I&E is charged with representing the public interest in Commission proceedings related to rates, rate-related services, and applications affecting the public interest. In negotiated settlements, it is incumbent upon I&E to identify how amicable resolution of any such proceeding benefits the public interest and to ensure that the public interest is served. Based upon I&E's analysis of PNG's 2016 1307(f) purchased gas costs ("PGC") filing, acceptance of this proposed Settlement is in the public interest and I&E recommends that Administrative Law Judge Susan D. Colwell ("ALJ Colwell") and Administrative Law Judge Steven K. Haas ("ALJ Haas") (collectively the "ALJs") and the Commission approve the Settlement in its entirety.

2. On April 29, 2016, pursuant to 52 Pa. Code Sections 53.64(c) and 53.65 of the Commission's Rules and Regulations, PNG submitted its pre-filing information in support of its annual reconciliation of purchased gas cost rates ("Book 1").

3. Then, on June 1, 2016, pursuant to 52 Pa. Code Section 53.64(a), PNG submitted its 2016 PGC filing to the Commission, with PNG's proposed *Pro Forma* Tariff Addendum to PNG Gas - Pa. P.U.C. No. 8, to become effective December 1, 2016, and the supporting written direct testimony of its witnesses. ("Book 2") *See*, Stipulation, ¶¶ 1, 4-7. In its filing and supporting testimony, PNG proposed a PGC rate of \$3.0248 per Mcf as set forth in Schedule A of Book 2, which would result in an increase of \$0.3046 per Mcf over the then current PGC rate of \$2.7202. *See*, PNG St. No. 1, p. 4.

4. PNG's current Section 1307(f) period is the twelve (12) months ended November 30, 2016, which includes the months of December 2015 through March 2016

of the historic period and April 2016 through November 2016 of the interim period, and the projected period is the twelve (12) months beginning December 1, 2016, and ending November 30, 2017. PNG St. No. 1, pp. 3-10. *See also*, I&E St. No. 1, pp. 2-6.

5. On or about May 4, 2016, ALJs Colwell and Haas were assigned to this proceeding for purposes of conducting hearings and issuing a Recommended Decision.

6. I&E entered the Notice of Appearance of Prosecutors Scott B. Granger and Bradley Gorter in this proceeding on May 12, 2016.

7. ALJs Colwell and Haas held a prehearing conference on June 6, 2016, during which the parties agreed to a schedule for the conduct of the case including the service of testimony among the parties and the dates for evidentiary hearings. As no evidence of the need for public input hearings was presented nor a request for one made, none was scheduled or held.

8. All statutory parties undertook thorough discovery in this proceeding. I&E commenced discovery shortly after the filing was made and continued to conduct discovery until shortly before service of its surrebuttal testimony was due.

9. In accordance with the procedural schedule established at the prehearing conference, I&E served to all active parties the following 2 pieces of testimony and accompanying 1 exhibit from one I&E witness addressing the subjects of C-factor quarterly adjustments, E-factor reconciliation, and peak service contract payment schedule:

I&E Statement No. 1 - the Direct Testimony of I&E witness Lisa A. Gumby; and,

I&E Statement No. 1-SR and I&E Exhibit No. 1-SR – the Surrebuttal Testimony and accompanying Exhibit of I&E witness Lisa A. Gumby.

10. In accordance with Commission policy favoring settlements at 52 Pa. Code § 5.231, I&E participated in multiple telephonic settlement discussions with the Company and the other Parties to the proceeding. Following extensive settlement negotiations, and recognizing that a settlement is the result of compromises made by all Parties, the Parties in this proceeding reached a full and complete Settlement of all issues.

11. A hearing was held on July 25, 2016, and at the hearing the Parties' witness testimonies and exhibits were admitted into the record by stipulation with accompanying signed verifications of the sponsoring witnesses.

II. TERMS AND CONDITIONS OF SETTLEMENT

12. "The prime determinant in the consideration of a proposed Settlement is whether or not it is in the public interest."¹ The Commission has recognized that a settlement "reflects a compromise of the positions held by the parties of interest, which, arguably fosters and promotes the public interest."²

13. I&E submits that the Settlement in the instant proceeding balances the interests of the Company, its customers, and the Parties in a fair and equitable manner and presents a resolution for the Commission's adoption that best serves the public interest. Furthermore, the negotiated Settlement demonstrates that compromises are evident throughout the Stipulation. Accordingly, for the specific reasons articulated below, and in order to achieve the full scope of benefits addressed in the Settlement, I&E

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

² *Pennsylvania Public Utility Commission v. C S Water and Sewer Associates*, 74 PA PUC 767, 771 (1991).

requests that the Settlement be recommended by ALJs Colwell and Haas and approved by the Commission without modification.

A. Quarterly C-Factor Adjustment Methodology (Stipulation ¶17).

1. Settlement Terms.

In the Settlement, PNG and the Parties agree, subject to the provisions set forth below, starting September 1, 2017, the Company shall change its C-Factor Reconciliation approach, approved in the 2014 PGC settlement, at Docket R-2014-2420276, to calculate the Company's September 1 PGC C-factor adjustment using a three-month remaining life volume. Further, the Company's September 2017 quarterly PGC rate change will be capped at 15% with any amounts above this cap being brought forward for inclusion in the calculation of subsequent quarterly PGC Rate Adjustments.

2. PNG's 1307(f) Filing.

In its filing, PNG reiterated the terms of the 2014 PGC Settlement and proposed to continue to use the quarterly C-factor adjustment as agreed to in the Settlement. PNG St. No. 1, pp. 4-10. *See also, 2014 Stipulation in Settlement, ¶¶ 20-24* at Docket No. R-2014-2420273. In that proceeding, the Company agreed to utilize the remaining life methodology recommended by I&E, with the exception that the final quarterly filing on September 1 of each year would be calculated over a six-month remaining life volume instead of the actual three-month remaining life volume. UGI St. No. 1, p. 17. *See also, I&E St. No. 1, p. 4.* Further, the Company proposed to continue with the agreement that any March, June or September quarterly PGC rate change will be capped at 25% of the

then current PGC rate, with any amounts above this cap being brought forward for inclusion in the calculation of the next subsequent adjustment. PNG St. No. 1, pp. 6-8.

3. I&E's Response to PNG's 1307(f) Filing.

In response to PNG's filing, I&E again reiterated the argument it made in 2014, that the Company's current C-factor adjustment methodology of calculating the C-factor in the final quarter over a six-month remaining life volume instead of over the actual three-month remaining life volume assures that incremental over/under collection from the prior quarter actual results and from revisions to the final quarter projections will not be recovered or refunded. I&E St. No. 1, p. 6. Instead, the residual balance from the final six months incremental over/under collections will become part of the E factor for the ensuing year with the attendant interest requirements. I&E St. No. 1, p. 6. Therefore, I&E recommended that the Company use three-month remaining life volumes in calculating C-factor adjustments in the final PGC quarter for better recovery of the actual incremental over/under collections in the prior quarter and projected over/under collections in the final quarter. I&E St. No. 1, pp. 8-9. I&E believes this approach will minimize the E-factor in the prospective PGC year and better recover gas costs in the PGC year in which they occur. I&E St. No. 1-SR, p. 2.

PNG responded to I&E's recommendation by arguing that I&E's proposed C-factor methodology would increase the volatility of the quarterly rate and would be inconsistent with the methodology agreed to in the 2014 UGI 1307(f) Settlement. PNG St. No. 1-R, pp. 3-4. PNG also pointed to the low percentage of annual gas usage in the final PGC quarter, 14%, as detrimental to rate stability in the final PGC quarter rate

calculations. PNG St. No. 1-R, p. 4. Additionally, PNG referenced the current projection that costs and revenues will only vary by 2.7% as proof that the existing methodology is working. PNG St. No. 1-R, p. 1.

In response to PNG's argument regarding volatility, I&E calculated the rate percentage adjustments for the six quarters ending March 1, 2015, June 1, 2015, September 1, 2015, December 1, 2015, March 1, 2016, and June 1, 2016; and found that the existing remaining life methodology did not result in volatility approaching the volatility levels anticipated by the Company in 2014. I&E St. No. 1-SR, pp. 5-6. The highest volatility in any of the six quarters for which PNG provided actual data hit the cap of 25% and the next highest was 19.90%. I&E St. No. 1-SR, pp. 5-6. In fact, based on the actual 2015 results, UGI's previous arguments that utilization of the three-month remaining life methodology would result in too much rate volatility are not supported by the now available actual historical data. I&E St. No. 1-SR, p. 7.

Finally, I&E recognizes that this Settlement is the result of compromises by all of the Parties and it does not necessarily represent the position(s) that would be advanced by I&E or the other Parties in the event this proceeding were to be fully litigated. Therefore, inconsideration of all of the above, I&E fully supports the settled upon C-factor methodology using a three-month remaining life volume; and, the 15% cap on the quarterly rate change. I&E believes that the settled upon C-factor methodology and the 15% cap are consistent with prior Commission decisions, provides stability to UGI, and provides sufficient protection from volatility; all of which are consistent with protecting the public interest.

B. UGI Energy Services (“UGIES”) Peaking Contract Payment Schedule (Stipulation ¶ 19).

1. Settlement Terms.

In the Settlement, PNG and the Parties agree that the Company shall not be required to modify its peaking service contract payments to UGIES.

2. PNG’s 1307(f) Filing.

PNG maintains several contracts (UGIES Peak Services I through VII) with UGI affiliate, UGIES, for winter peak needs. PNG St. No. 3, pp. 3-8; and, PNG St. No. 3-R, pp. 1-3. *See also* I&E St. No. 1, pp. 6-8. PNG pays UGIES a demand charge to reserve this service. PNG St. No. 3-R, p. 1. The Company spreads the payments for these services over a five-month period beginning in November. PNG St. No. 3-R, p. 1. *See also* I&E St. No. 2, pp. 6-8. In November 2015, the actual results reflect revenues of \$4,207,968 compared to gas costs of \$5,285,987. *See* I&E St. No. 1, p. 7, *citing* PNG Book 2, Sch. C, p. 5. The end result was an under collection of (\$1,078,020). I&E St. No. 1, p. 7.

3. I&E’s Response to PNG’s 1307(f) Filing.

I&E recommended that the peak service contract payment schedules be modified to remove a November payment from the peak service contracts. I&E St. No. 1, p. 8. I&E argued the Company’s own data does not support claims of winter usage levels in November, so payment for peak winter usage coverage in that month, which always results in a large under collection and an attendant high interest payment due from ratepayers, is unreasonable. I&E St. No. 1, pp. 9-10. This mismatch of the payment for

peak winter usage coverage to UGI's affiliates in November and non-winter usage levels in November will logically always result in a large under collection. I&E St. No. 1, pp. 9-10. As I&E noted, the month of November is the beginning of the heating season with usage amounts well below projected and experienced usage for the heating months of December through March. I&E St. No. 1, p. 7. Despite anticipated and projected low usage and revenue in November, ratepayers are assessed costs for peak contracts that exceed the need in that month, the last month of the PGC year. I&E St. No. 1, p. 7. From the current filing, peak sales months are December through March, which would mitigate large under collections as costs would be aligned with revenues. I&E St. No. 1-SR, pp. 9-12. Additionally, any incremental over/under collections that result in these months, at the beginning of the PGC year, have a much greater likelihood of being refunded or recovered in ensuing months and thereby minimizing the annual E-factor. I&E St. No. 1, pp. 9-10. Further, the Company's peaking service contracts are with PNG affiliate UGIES, and future requests for proposals (if not the current contracts) could easily be modified to alter the payment terms to better align revenues and costs. I&E St. No. 1, pp. 9-10, and I&E St. No. 1-SR, p. 11. PNG should consider revising its future contract terms and request for proposals to specify alternative payment schedules that would eliminate a November payment.

In response, PNG disagreed with I&E's argument that moving the payment schedule from November to December through March would reduce its impact on the Company's E-factor. PNG St. No. 1-R, p. 6, and PNG St. No. 3-R, p. 3. Instead, PNG argued that moving the payment to a month other than November would unfavorably

impact PGC ratepayers due to the interest component of the E-factor resulting in higher interest costs. PNG St. No. 1-R, p. 6; and PNG St. No. 3-R, pp. 2-3. Due to the time value recognition of interest weighting, as described by the PNG witness, moving the payment to December would increase the weighting to 18 versus the interest weighting of 7 applied to balances in November. PNG St. No. 1-R, p. 6. This, PNG argued, would have added \$118,000 of incremental interest to ratepayers for the past PGC year. PNG St. No. 1-R, p. 6. PNG also argues that because the contracts with its affiliate UGIES are arms-length agreements, PNG cannot simply modify the payment terms during the life of the current contracts. PNG St. No. 3-R, p. 3.

I&E acknowledges PNG's argument regarding the interest weighting factor, conceding that the interest weighting factor is higher in December than November. I&E St. No. 1-SR, p. 9. However, I&E argued that the interest weighting factor is essentially irrelevant if the revenues and expenses are closely matched as individual monthly over and under collections would be minimized. I&E St. No. 1-SR, pp. 9-11. *See also* I&E Ex. No. 1-SR, Sch. 2. I&E also acknowledges that while the Company may be restricted from altering payment terms on current contracts, it has the ability to alter the structure of its requests for proposals ("RFPs") to specify the payment structure that suppliers will quote. I&E St. No. 1-SR, p. 11. As the peaking service contracts expire, the Company should evaluate actual historic costs and revenues and specify a payment schedule in its RFPs that is best designed to match ratepayer revenues to gas costs. I&E St. No. 1-SR, pp. 11-13.

Finally, and notwithstanding all of the above, I&E recognizes that this Settlement is the result of compromises by I&E and the Parties and it does not necessarily represent the position(s) that would be advanced by I&E or the other Parties in the event this proceeding were to be fully litigated. Therefore, I&E supports its decision to ultimately withdraw this issue from this year's 1307(f) proceeding.

III. THE SETTLEMENT SATISFIES THE PUBLIC INTEREST

14. I&E represents that all issues raised in testimony have been satisfactorily resolved through discovery and discussions with the Company or are incorporated or considered in the resolution proposed in the Settlement. The very nature of a settlement requires compromise on the part of all parties. This Settlement exemplifies the benefits to be derived from a negotiated approach to resolving what can appear at first blush to be irreconcilable regulatory differences. The Parties have carefully discussed and negotiated all issues raised in this proceeding, and specifically those addressed and resolved in this Settlement. Further line-by-line identification of the ultimate resolution of the disputed issues beyond those presented in the Settlement 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 1307(f) filing complete.

15. Based upon I&E's analysis of the filing, resolution of this case by settlement rather than litigation avoids the substantial time and effort involved in continuing to formally pursue all issues in this proceeding at the risk of accumulating excessive expense and regulatory uncertainty.

16. I&E further submits that the acceptance of this Settlement negates the need for evidentiary hearings, which would compel the extensive devotion of time and expense for the preparation, presentation, and cross-examination of multiple witnesses, the preparation of Main and Reply Briefs, the preparation of Exceptions and Replies, and the potential of filed appeals, all yielding substantial savings for all parties and ultimately all customers. Moreover, the Settlement provides regulatory certainty with respect to the disposition of issues and final resolution of this case which all of the Parties agree benefits their discrete interests.

17. The Settlement is conditioned upon the Commission's approval of all terms without modification. Should the Commission fail to grant such approval or otherwise modify the terms and conditions of the Settlement, it may be withdrawn by the Company, I&E, or any other Party.

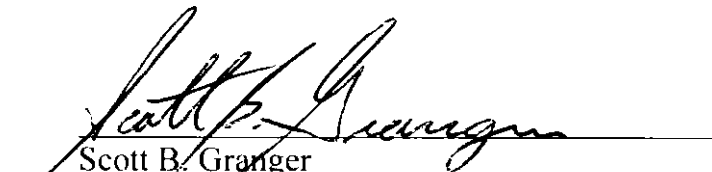
18. This Settlement is being presented only in the context of this Section 1307(f) proceeding in an effort to resolve certain outstanding issues in a manner that is fair and reasonable. I&E's agreement to settle this case is made without any admission or prejudice to any position that I&E might adopt during subsequent litigation in the event that the Settlement is rejected by the Commission or otherwise properly withdrawn by any other Parties to the Settlement. Furthermore, the Settlement reflects compromises on all sides, and is presented without prejudice to the positions that any of the parties may advance in future PNG proceedings on the merits of the issues.

19. If ALJs Colwell and Haas recommend that the Commission adopt the Settlement as proposed, I&E agrees to waive the filing of Exceptions. However, I&E

does not waive its right to file Replies to Exceptions with respect to any modifications to the terms and conditions of the Settlement or any additional matters that may be proposed by ALJs Colwell and Haas in their Recommended Decision. Further, I&E does not waive the right to file Replies in the event *any* party files Exceptions.

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 Judges Susan D. Colwell and Steven K. Haas recommend, and the Commission approve, the terms and conditions contained in the Settlement.

Respectfully submitted,


Scott B. Granger
Attorney I.D. #63641

Bureau of Investigation and Enforcement
Pennsylvania Public Utility Commission
Post Office Box 3265
Harrisburg, Pennsylvania 17105-3265
(717) 787-1976

Dated: August 16, 2016

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Appendix C

(OCA Statement in Support)

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :
 :
 v. : Docket No. R-2016-2543314
 :
 UGI Penn Natural Gas, Inc. :

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STATEMENT OF THE
OFFICE OF CONSUMER ADVOCATE
IN SUPPORT OF SETTLEMENT

The Office of Consumer Advocate (OCA), a signatory party to the foregoing Stipulation in Settlement (Settlement) in the above-captioned proceeding, respectfully requests that the terms and conditions of the Settlement be approved by the Administrative Law Judge (ALJ) and the Pennsylvania Public Utility Commission (Commission). The Settlement resolves all issues regarding UGI Penn Natural Gas, Inc.'s (UGI or the Company) annual reconciliation of purchased gas cost (PGC) rates. It is the OCA's position that the proposed Settlement is in the public interest.

I. INTRODUCTION

On April 29, 2016, pursuant to Sections 53.64 and 53.65 of the Commission's Rules and Regulations, the Company submitted its pre-filing information in support of its annual reconciliation of purchased gas cost (PGC) rates. On May 12, 2016, the OCA filed its Formal Complaint in this matter. On June 1, 2016, the Company made its definitive filing. The Company proposed a PGC rate of \$3.0248 per Mcf for the residential class, which is the same as its current PGC rate in effect as of June 1, 2016.

The Company's filing was assigned to the Office of Administrative Law Judge and was further assigned to Administrative Law Judge Susan D. Colwell and Administrative Law Judge Steven Haas 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 Colwell and ALJ Haas conducted a Prehearing Conference in this matter on June 6, 2016.

As part of its investigation and analysis of the Company's filings, the OCA served multiple sets of discovery on UGI. On June 28, 2016, the OCA submitted the Direct Testimony of Jerome D. Mierzwa. That testimony set forth the OCA's recommendations concerning the Company's peaking service RPF results and the proposed Forest City LNG supply costs.

Settlement discussions were ongoing during the period of time after Direct Testimony was filed, and several issues were resolved as the parties completed their review. The settlement discussions 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 represent the terms of the Settlement that address the OCA's concerns in this case.

A. Forest City LNG Supply Costs

In his Direct Testimony, OCA witness Mierzwa opposed the Company's proposal to recover costs of temporary LNG supply service for the Forest City area in its PGC rates. OCA St. 1 at 3-5. As Mr. Mierzwa explained, PNG will be taking a portion of its eastern line out of service while maintenance and upgrades are conducted between the months of April to October, 2016 and 2017. OCA St. 1 at 4. During this time, the Company has arranged for temporary LNG supply service for the Forest City area; the Company proposed to recover the LNG supply

costs through PGC rates. Id. Mr. Mierzwa testified that this cost recovery should not be authorized, and that the Company “should only be entitled to recover the same level of costs that would have been recovered through PGC rates as if the eastern line were not taken out of service.” Id.

The following settlement provision addresses Mr. Mierzwa’s concern about the Forest City LNG supply costs:

PNG shall be permitted to recover through its PGC rates (a) 87 percent of its facility costs and (b) 87 percent of the LNG commodity costs, for which the 87 percent is equal to the percentage share of supply used by PGC customers in Forest City during the period of April 1 through October 31 in 2016 and 2017 and (c) the remaining 13 percent of the LNG commodity volumes multiplied by the monthly published Platt’s Inside FERC Index for Tennessee Zone 4 300 Leg plus the applicable transportation cost to deliver the gas to PNG’s city gate for natural gas that PNG would have incurred during the period April 1 through October 31 in 2016 and 2017.

Settlement ¶ 20. Through Company Rebuttal Testimony and settlement discussions, the parties developed this cost sharing proposal which assigns an appropriate proportion of the LNG supply costs to PGC customers based on this customer group’s share of supply and facility costs during the applicable time period. As such, this settlement provision addresses OCA’s concerns regarding the Company’s recovery of LNG supply costs in the Forest City area.

B. Peaking Service RFP Results

In his Direct Testimony regarding the UGI Utilities, Inc. – Gas Division PGC proceeding (Docket No. R-2016-2543309), Mr. Mierzwa expressed his concern regarding responses to an RFP for peaking service that were received by the Company in the week before Direct Testimony was filed in that proceeding, and requested that the Company provide the RFP results and the basis for its decision to accept a particular bid. Although Mr. Mierzwa did not directly

address this issue in his UGI PNG Direct Testimony, the Company provided information about the RFP results in this UGI PNG proceeding as part of the settlement process.

As explained in Settlement Paragraph 18:

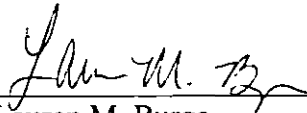
PNG provided the results of the RFP for peaking service along with an analysis of the bids received to the public parties. The bid from UGI Energy Services, LLC (“UGIES”) was the only conforming bid received. Based on the analysis and consistent with PNG’s primary firm requirements and least-cost fuel procurement obligations, PNG shall be permitted to accept the UGIES offer.

This provision satisfies Mr. Mierzwa’s concerns by detailing the bids received as part of the RFP process for peaking service, and explaining why a particular bid was chosen. As such, the OCA’s concern in this proceeding regarding RFP results has been addressed.

III. CONCLUSION

For the foregoing reasons, the Office of Consumer Advocate submits that the terms and conditions of the Settlement are in the public interest and, therefore, should be approved.

Respectfully Submitted,



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August 16, 2016

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Appendix D

(OSBA Statement in Support)

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
	:	
	:	
v.	:	Docket No. R-2016-2543314
	:	
UGI PENN NATURAL GAS, INC.	:	

**STATEMENT OF
THE OFFICE OF SMALL BUSINESS ADVOCATE
IN SUPPORT OF THE
STIPULATION IN SETTLEMENT OF
SECTION 1307(f) RATE INVESTIGATION**

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, which was initiated by UGI Penn Natural Gas, Inc. (“UGI PNG” or the “Company”), on June 1, 2016.

The OSBA actively participated in the negotiations that led to the proposed settlement and is a signatory to the Stipulation in Settlement of Section 1307(f) Rate Investigation (“*Stipulation*”). The OSBA submits this statement in support of the *Stipulation*.

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The Stipulation

The *Stipulation* sets forth a comprehensive list of issues that were resolved through the negotiation process.

Although the OSBA did not serve testimony in this proceeding, the OSBA did review a number of issues of concern in the Company's filing. In particular, the OSBA investigated the following issues.

Lost-and-unaccounted for gas ("LAUFG") – The OSBA reviewed the LAUFG data submitted by UGI PNG in this proceeding. In this proceeding, the OSBA's review of the Company's data indicates that UGI PNG's LAUFG performance is within the Commission guidelines. The OSBA therefore accepts the Company's LAUFG performance for the purposes of this proceeding. The *Stipulation* is consistent with this position.

Design day demand calculations – The OSBA also reviewed the design day demand methodology employed by UGI PNG in this proceeding. The OSBA also reviewed certain additional design day-related issues raised in this proceeding. *See, e.g., Stipulation*, at Paragraphs 18-19. For the purposes of this proceeding, the OSBA accepts the Company's design day calculations. In addition, the OSBA observes that the *Stipulation* does not lock in any particular design day methodology, allowing all parties to pursue this issue in future Section 1307(f) proceedings.

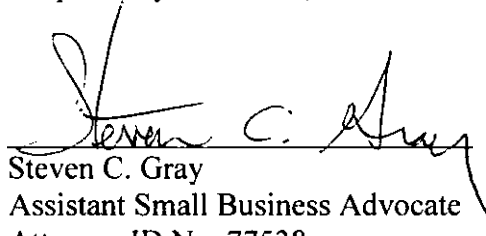
Incentive Sharing Mechanism – The OSBA also reviewed UGI PNG's capacity release/off-system sales sharing mechanism to ascertain whether it is working properly, and whether it is causing the Company to maximize the value of assets paid for by UGI PNG's customers.. The OSBA did not identify any way in which small business customers were treated unfairly relative to other customers by the Company's policies. Therefore, the OSBA concluded

that the operation of UGI PNG's revenue sharing mechanism is acceptable for purposes of this proceeding.

Conclusion

For the reasons set forth in the *Stipulation*, as well as the additional factors that are enumerated in this statement, the OSBA supports the proposed *Stipulation* and respectfully requests that the ALJ and the Commission approve the *Stipulation* in its entirety.

Respectfully submitted,


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

Office of Small Business Advocate
300 North Second Street, Suite 202
Harrisburg, PA 17101

Dated: August 16, 2016

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PENNSYLVANIA PUBLIC UTILITY
COMMISSION, et al.**
v.
UGI PENN NATURAL GAS, INC. §1307(f)

:
: **Docket Nos. R-2016-2543314**
: **C-2016-2544985**
: **C-2016-2548847**
:

CERTIFICATE OF SERVICE

I hereby certify that I have, this 16th day of August 2016 served a true and correct copy of the foregoing document in the manner and upon the persons listed below in accordance with requirements of 52 Pa. Code § 1.54 (relating to service by a participant):

VIA ELECTRONIC AND FIRST CLASS MAIL:

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The Honorable Steven K. Haas
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Mark C. Morrow

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