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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 Central Penn Gas, Inc.  
Docket Nos. R-2016-2543311, C-2016-2544964, C-2016-2548845**

Dear Secretary Chiavetta:

Please find enclosed the Stipulation in Settlement of UGI Central Penn 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.

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

Enclosure  
cc: Certificate of Service

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**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**Docket Nos.** R-2016-2543311  
C-2016-2544964  
C-2016-2548845

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

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

**I. INTRODUCTION**

1. UGI Central Penn Gas, Inc. ("CPG" or the "Company"), 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"), hereby join in this Stipulation in Settlement of Section 1307(f) Rate Investigation ("Settlement"), and hereby request that Administrative Law Judges Susan D. Colwell and Steve K. Haas ("the ALJs") and the Commission: (1) approve the terms of this Settlement; (2) authorize CPG to file a tariff supplement for service rendered on or after December 1, 2016, that implements, subject to updates and tariff modifications traditionally performed on December 1, the PGC rate of \$3.2229 per Mcf set forth in Schedule A of its Book 2 filing; and (3) make all associated findings required by Sections 1307(f) and 1318 of the Public Utility Code, 66 Pa.C.S. §§ 1307(f) and 1318.

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

## **II. BACKGROUND**

3. 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 — 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, CPG 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, CPG 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 Central Penn 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 CPG 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 CPG, and R-2016-2543314 for UGI Penn Natural Gas, Inc. (“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, CPG 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.

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

16. The Parties agree the rates for the recovery of the purchased gas costs of CPG will be \$3.2229 per Mcf, effective December 1, 2016, as proposed by CPG 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 CPG PGC rate is described in CPG 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-2014-2420279, 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.

18. The Company shall be permitted to apply the 25/75% revenue sharing mechanism in its tariff to the release of firm transportation capacity on ANR Pipeline Company as proposed in CPG Statement No. 3, the Direct Testimony of David C. Beasten.

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

20. The Company shall be permitted to recover, through the PGC rate, 55% of the costs it pays through negotiated rate agreements with Texas Eastern which compensate Texas Eastern for improvements made to the Shippensburg Gate Station, which is the sole source of supply for this portion of the CPG service territory.

#### **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 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, 2016. The new tariff rates are intended to become effective December 1, 2016.

**A. Historic Reconciliation Period Standards**

22. With respect to CPG'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 CPG 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, 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 customer. Information submitted by CPG in support of the required statutory findings can be found in the following sections of 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 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 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, 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 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.

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:

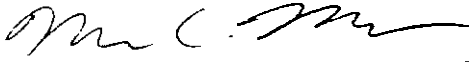
1. That ALJs Susan D. Colwell and Steven K. Haas and the Commission approve this Settlement, including all terms and conditions thereof;

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 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, 2016; and

4. That the Commission terminate and mark closed its inquiry and investigation at Docket Nos. R-2016-2543311, C-2016-2544964, and C-2016-2548845.

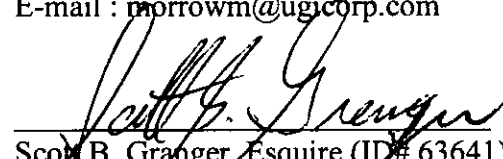
Respectfully submitted,



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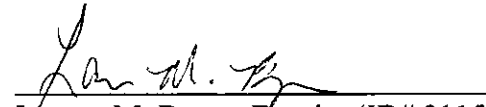
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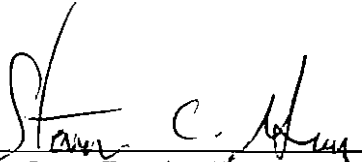
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**Appendix A**

(CPG Statement in Support)

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

v.

**UGI CENTRAL PENN GAS, INC. §1307(f)**

:  
: **Docket Nos.** R-2016-2543311  
: C-2016-2544964  
: C-2016-2548845  
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**UGI CENTRAL PENN 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 Central Penn Gas, Inc. ("CPG" 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 CPG, 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. 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 Settlement of this proceeding was achieved only after a comprehensive investigation of CPG's gas procurement practices. CPG responded to numerous and extensive formal discovery requests. Parties also filed multiple rounds of testimony, including CPG's direct testimony, I&E's and OCA's direct testimony, CPG'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-2014-2420279. 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 4-8. 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 20 – p. 9, line 5. 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 7-18.

In rebuttal testimony CPG 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. CPG Stmt. 1-R, p. 3, line 17 – p. 4, line 17. In surrebuttal I&E did not contradict CPG'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 6 – p. 6, line 3.

After extensive negotiation between the parties, CPG and I&E came to a compromise position whereby CPG 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, and should be approved.

**B. ANR Capacity Release Credit to PGC**

In its Book 2 filing, CPG reported that it had modified its Columbia firm transportation contract to change the primary receipt point from Lebanon, Ohio to Leach, Kentucky. CPG Statement No. 3, p. 10 lines 12-13. The Lebanon receipt point is an interconnection between the Columbia and ANR pipelines to bring Gulf Coast supplies via ANR to Columbia, for redelivery to CPG. Due to abundant Marcellus supplies, CPG explained that it currently does not utilize the ANR capacity from the Gulf Coast; would not renew the ANR Contract in 2019; therefore no longer needs Lebanon as the primary receipt point on the Columbia system, and would change its Columbia receipt point to Leach to align with Marcellus supplies. CPG Stmt. No. 3, p. 11, lines 1-12. Because Columbia would only guarantee capacity at Leach by November 1, 2017, CPG

agreed to change the receipt point in advance of the expiration of the ANR contract and proposed to release the unutilized ANR capacity and credit the capacity release revenues in accordance with the sharing provisions of its tariff. CPG Stmt. No. 3, p. 11, line 12 – p. 12, line 16.

In direct testimony, I&E witness Ethan Cline recommended that CPG release the ANR capacity as proposed by the Company but that any revenue from the capacity release be credited 100% back to PGC customers rather than in accordance with the sharing mechanism as proposed by the Company. I&E Statement No. 1, p. 5, lines 1-6. Mr. Cline cited as support for this recommendation: (1) that the ANR capacity would not be available for use by CPG customers; and (2) that sharing of revenue generated from capacity releases should only apply to short term releases rather than long term planned releases. I&E Stmt. No. 1, p. 4, lines 5-14. In response, CPG, in its rebuttal testimony, stated that the Commission has not advocated a disparate application of a revenue sharing mechanism based on the term length of the capacity being released and that crediting the ANR capacity release as proposed by the Company was consistent with its tariff. CPG Stmt. 2-R, p. 5, lines 2-14. CPG further stated that where release of long-term capacity benefits the Company's PGC customers, revenues should be credited according to the approved sharing mechanism to incent the Company to make supply decisions that benefit PGC customers. CPG Stmt. 2-R, p. 5, lines 14-23.

In surrebuttal I&E withdrew its recommendation citing the Company's clarification in informal discussions that released capacity would still be available for use by PGC customers in emergency cases and in case Gulf gas became cheaper than Marcellus shale gas. The Settlement adopts CPG's position and permits CPG to apply the revenue sharing mechanism to any ANR capacity release revenues which is reasonable for the reasons explained herein. Thus, this Settlement term reasonably resolves this issue, is in the public interest and should be approved.

### **C. UGIES Peaking Contract Payment Schedule**

CPG Book 2, Schedule B, lists four peaking service contracts the Company has entered into with UGI Energy Services, LLC (“UGIES”) that allow CPG to call on supplies for a specific number of days during the November through March winter period.<sup>1</sup> CPG pays demand charges for this service in November, December, January, February, and March. CPG Exhibit 1, Book 2, Schedule B, p. 12. In direct testimony, I&E’s expert Christopher Keller 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 10-18. Mr. Keller cited as support for that recommendation the fact that gas costs exceeded actual revenues for November by \$993,850 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, line 15 – p. 8, line 2.

CPG 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.<sup>2</sup> CPG Stmt. No. 1-R, p. 4, line 20 – p. 5, line 4. Because the PGC rate is based on a twelve-month period, no mismatch of revenues in any one particular month impacts the E-Factor. CPG Stmt. No. 2-R, p. 6, line 16 – p. 7, line 11. To the contrary, moving the November payment to a later month has a

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<sup>1</sup> The peaking service contracts with UGIES are: (1) UGIES Peak Sev-North Penn; (2) TETCO Peak Service; (3) TETCO Peak Service II; and (4) Columbia Peak Service.

<sup>2</sup> 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.

negative impact on PGC customers due to the low interest weighting applied to over or under collection balances in November. CPG Stmt. No. 1-R, p. 5, lines 4-7.

In surrebuttal I&E agreed with CPG'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 were more closely matched, that would minimize interest factor. I&E Stmt. 2-SR, p. 9, lines 4-20.

The Settlement adopts the position of CPG and does not require the Company to change the payment schedule of its peaking contracts. The Settlement is reasonable for the reasons explained herein. Thus, this Settlement term reasonably resolves this issue, is in the public interest and should be approved.

#### **D. Shippensburg Station Rebuild**

In its Book 2 filing, CPG described five negotiated rate agreements with Texas Eastern that extend the contracts for a period of ten years and establish a demand surcharge to be paid over the term of the contracts. CPG Stmt. No 3, p. 13, lines 1-9. The demand surcharges pay for a portion of improvements made by Texas Eastern to the Company's Shippensburg gate station to increase security and quantity of supply through the station, which is the sole source of supply for this area of CPG's system. CPG Stmt. No. 3, p. 14, lines 1-8.

In direct testimony OCA witness Jerome D. Mierzwa disagreed with the Company's proposal for the stated reason that both PGC and transportation customers will benefit from the Shippensburg gate station improvements and that both PGC and transportation customers should be responsible for the costs. OCA Stmt. No. 1, p. 4, lines 6-11. Mr. Mierzwa recommended that, based on the Company's response to OCA Interrogatory II-3-D, the PGC (and choice) customers account for 55 percent of Shippensburg area peak demand and transportation customers account for 55 percent, only 55 percent of the demand surcharge payments be authorized for recovery

through PGC rates. OCA Stmt. No. 1, p. 4, lines 12-24. The Company responded in rebuttal testimony that the costs to upgrade the Shippensburg Gate Station are direct costs paid for the delivery of natural gas costs to the CPG system, are therefore “natural gas costs” and are permitted to be recovered in PGC rates per 66 Pa. Code § 1307(h). CPG Stmt. 3-R, p. 3, line 14 – p. 4, line 3.

The Settlement adopts a compromise between the position of OCA and the Company and permits the Company to recover, through the PGC rate, 55 percent of the costs of the Shippensburg Gate Station rebuild. The Settlement is reasonable for the reasons explained herein. Thus, this Settlement term reasonably resolves this issue, is 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 CPG’s April 29, 2016 pre-filing, CPG’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 CPG’s PGC filing through discovery and the submission of testimony. CPG has addressed the contested issues through the specific provisions of the Settlement and requests that the ALJ 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 CPG’s gas procurement practices, through both discovery and submission of testimony by a number of parties. The Settlement, if approved by Administrative Laws Judge 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, CPG's April 29, 2016 submission of pre-filing information, CPG's June 1, 2016 PGC 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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Counsel for UGI Central Penn 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 CPG'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, CPG 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), CPG submitted its 2016 PGC filing to the Commission, which included CPG's *Pro Forma* Tariff Addendum to CPG Gas - Pa. P.U.C. No. 4, to become effective December 1, 2016, and the supporting written direct testimony of its witnesses. ("Book 2") *See*, Stipulation, ¶¶ 4-7. In its filing and supporting testimony, CPG proposed a PGC rate of \$3.2229 per Mcf; which would result in an increase of \$0.1814 per Mcf over the current PGC rate of \$3.0415. *See*, CPG St. No. 1, pp. 3-4; and, Stipulation, ¶ 16.

4. CPG'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. CPG St. No. 1, pp. 4-10.

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 4 pieces of testimony and accompanying 1 exhibit from two I&E witnesses addressing the subjects of C-factor quarterly adjustments, E-factor reconciliation, peak service contract payment schedule, over/under collection balances, and stranded ANR capacity releases:

I&E Statement No. 1 - the Direct Testimony of I&E witness Ethan Cline;

I&E Statement No. 1-SR - the Surrebuttal Testimony of I&E witness Ethan Cline;

I&E Statement No. 2 - the Direct Testimony of I&E witness Christopher Keller; and,

I&E Statement No. 2-SR and I&E Exhibit No. 2-SR – the Surrebuttal Testimony and accompanying Exhibit of I&E witness Christopher Keller.

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."<sup>1</sup> 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."<sup>2</sup>

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

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

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

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 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, CPG 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-2014-2420279, 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. CPG's 1307(f) Filing.*

In its filing, CPG 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. CPG St. No. 1, pp. 4-10. *See also, 2014 Stipulation in Settlement*, ¶¶ 20-24 at Docket No. R-2014-2420279. 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. I&E St. No. 2, pp. 3-5. 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. *See, 2014 Stipulation in Settlement*, ¶ 22 at Docket No. R-2014-2420279.

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

In response to CPG'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. 2, 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. 2, p. 6. I&E therefore 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. 2, 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. 2-SR, p. 2.

CPG 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. CPG St. No. 1-R, pp. 1-6. CPG also pointed to the low percentage of annual gas usage in the final PGC quarter, 11%, as detrimental to rate stability in the final PGC quarter rate calculations. CPG St. No. 1-R, p. 4. Additionally, UGI referenced the current projection that costs and revenues will only vary by 0.1% as proof that the existing methodology is working. CPG St. No. 1-R, p. 1.

In response to CPG'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 any volatility remotely approaching the volatility levels anticipated by the Company in 2014. I&E St. No. 2-SR, pp. 5-6. The highest volatility in any of the six quarters for which CPG provided actual data was 13.73%. I&E St. No. 2-SR, p. 5. In fact, based on the actual 2015 results, CPG'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. 2-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, in consideration 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 CPG, and provides sufficient protection from volatility; all of which are consistent with protecting the public interest.

**B. ANR Capacity Release Credit to PGC (Stipulation ¶ 18).**

*1. Settlement Terms.*

In the Settlement, CPG and the Parties agree that the Company shall be permitted to apply the 25/75% revenue sharing mechanism in its tariff to the release of American Natural Resources Pipeline Company (“ANR”) pipeline capacity.

*2. CPG’s 1307(f) Filing.*

In its filing, CPG proposed the release of stranded upstream pipeline capacity on its ANR pipeline contract. UGI St. No. 3, pp. 10-15. CPG stated, effective November 1, 2017, CPG, through agreements with Columbia, will change the receipt point of two of its Columbia pipeline contracts from Lebanon, Ohio to Leach, Kentucky in order to better access Marcellus Shale Gas. CPG St. No. 3, pp. 10-15. Columbia, however, would only agree to shift the receipt points if CPG would agree to the November 1, 2017 date for the shift. CPG St. No. 3, pp. 11-12. And because the ANR pipeline contracts don’t terminate until March 13, 2019, according to CPG, the upstream ANR pipeline capacity will effectively be stranded from November 1, 2017 through the March 31, 2019 contract termination date. CPG St. No. 3, pp. 10-12.

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

I&E acknowledged that the Company’s proposal to change the receipt point of the two Columbia pipeline contracts to better access potentially cheaper Marcellus Shale Gas

is reasonable. I&E St. No. 1, p. 3. However, in the case of the ANR pipeline capacity, once the delivery point is switched, as described by CPG, CPG customers will not have the opportunity to make use of this stranded pipeline capacity. I&E St. No. 1, pp. 3-4. I&E believed this was a significant issue because the stranded ANR capacity would not be available for use by CPG customers while the Company will still be recovering the cost of the stranded ANR capacity from customers through PGC rates. I&E St. No. 1, pp. 3-5.

CPG responded to the concerns expressed by I&E through informal discussions and settlement negotiations, and, confirmed that the ANR pipeline capacity would not be “stranded,” as originally characterized by CPG; but rather, would still be available to CPG customers as a last resort or in case of an unforeseen catastrophe. I&E is satisfied with CPG’s explanation regarding the actual availability of the ANR pipeline capacity for the period from November 1, 2017 through March 31, 2019.

Finally, I&E recognizes that this Settlement is the result of compromises by all of the Parties. Therefore, I&E supports the use of the 25/75% sharing mechanism regarding any release of the ANR capacity from November 1, 2017 through March 31, 2019. I&E believes that the use of the 25/75% sharing mechanism is consistent with prior Commission decisions, provides stability to CPG, and provides protection from pipeline capacity volatility; all of which are consistent with protecting the public interest.

**C. CPG's Peaking Service Contract Payment Schedule (Stipulation ¶ 19).**

*1. Settlement Terms.*

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

*2. CPG's 1307(f) Filing.*

CPG maintains several contracts with UGI affiliate UGI Energy Services, LLC ("UGIES") for winter peak needs. CPG St. No. 3, pp. 3-9, and CPG St. No. 2-R, pp. 6-8. *See also* I&E St. No. 2, p. 7, *citing* CPG Book 2, Sch. B, p. 6 and CPG Book 2, Sch. B, p. 12. CPG pays a demand charge to reserve this service. CPG St. No. 2-R, p. 6. The Company spreads the payments for these services over a five-month period beginning in November. I&E St. No. 2, pp. 7-8. In November 2015, the actual results reflect revenues of \$1,822,345 compared to gas costs of \$2,816,195. *See* I&E St. No. 2, p. 7, *citing* CPG Book 2, Sch. C, p. 5. The end result was an under collection of (\$993,850). I&E St. No. 2, p. 7.

*3. I&E's Response to CPG'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. 2, p. 10. 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. 2, p. 10. This mismatch of the payment for

peak winter usage coverage to CPG's affiliates in November and non-winter usage levels in November will logically always result in a large under collection. I&E St. No. 2, pp. 7-8. 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. 2, 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. 2, p. 7. 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. 2, p. 10, and I&E St. No. 2-SR, pp. 9-10. Further, the Company's peaking service contracts are with UGI 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. 2, p. 10, and I&E St. No. 2-SR, pp. 11-12. CPG should consider revising its future contract terms and request for proposals to specify alternative payment schedules that would eliminate a November payment.

In response, CPG 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. CPG St. No. 1-R, p. 6, and CPG St. No. 2-R, pp. 6-8. Instead, CPG 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. CPG St. No. 1-R, p. 6; and CPG St. No. 2-R, pp. 6-8. Due to the time

value recognition of interest weighting, as described by CPG, moving the payment to December would increase the weighting to 18 versus the interest weighting of 7 applied to balances in November. CPG St. No. 1-R, p. 6. This, CPG argued, would have added \$40,000 of incremental interest to ratepayers for the past PGC year. CPG St. No. 1-R, p. 6. CPG also argues that because the contracts with its affiliate UGIES are arms-length agreements, CPG cannot simply modify the payment terms during the life of the current contracts. CPG St. No. 2-R, pp. 7-8.

I&E acknowledged CPG's argument regarding the interest weighting factor, conceding that the interest weighting factor is higher in December than November. I&E St. No. 2-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. 2-SR, pp. 9-10. *See also* I&E Ex. No. 2-SR, Sch. 2. I&E also acknowledged 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. 2-SR, p. 11. I&E argued as the peaking service contracts expire, CPG 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. 2-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 the negotiated 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.

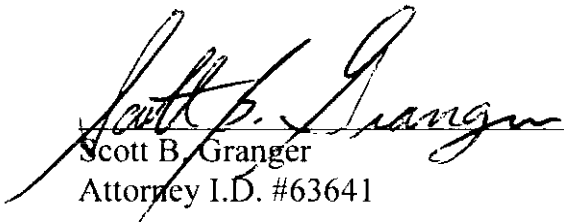
18. This Settlement is being presented only in the context of this Section 1307(f) proceeding in an effort to resolve certain outstanding issues in a manner that is fair and reasonable. I&E's agreement to settle this case is made without any admission or prejudice to any position that I&E might adopt 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 CPG 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,

  
\_\_\_\_\_  
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Attorney I.D. #63641

Bureau of Investigation and Enforcement  
Pennsylvania Public Utility Commission  
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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-2016-2543311  
 :  
 UGI Central Penn Gas, Inc. :

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STATEMENT OF THE  
OFFICE OF CONSUMER ADVOCATE  
IN SUPPORT OF SETTLEMENT

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The Office of Consumer Advocate (OCA), 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 Central Penn 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 \$3.2229 per Mcf for the residential class, which is an increase of \$0.1814 per Mcf, or 1.6% more than 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 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 costs associated with improvements to the Shippensburg gate station.

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. Shippensburg Gate Station Improvement Costs**

In his Direct Testimony, Mr. Mierzwa opposed the Company's proposal to recover the costs of rebuilding the Shippensburg gate station through the PGC. OCA St. 1 at 3-4. As Mr. Mierzwa explained, the Company receives gas from Texas Eastern Transmission at its Shippensburg gate station. OCA St. 1 at 3. The gate station was recently rebuilt, including both the Texas Eastern and the CPG portions of the gate station. *Id.* In order to cover the costs, "CPG has agreed to demand surcharges that will be assessed on its Texas Eastern firm

transportation contract to compensate Texas Eastern for the majority of the costs they incurred to rebuild their portion of the Shippensburg gate station.” OCA St. 1 at 3-4. The Company proposed to collect an estimated \$2.3 million in demand surcharges through the PGC. OCA St. 1 at 4.

Mr. Mierzwa opposed this cost recovery proposal, explaining that “Both PGC and transportation customers will benefit from the Shippensburg gate station improvements. Therefore, both PGC and transportation customers should be responsible for these costs.” Id. Mr. Mierzwa recommended that 55% of the demand surcharge payments be recoverable through PGC rates and the remaining 45% be recovered from transportation customers. Id. This cost sharing proposal reflects the percentage of peak demand for each group of customers in the Shippensburg area. Id.

Settlement Paragraph 20 accepts OCA witness Mierzwa’s cost sharing proposal, providing that:

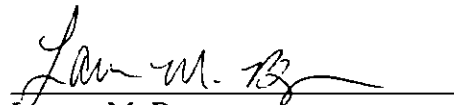
The Company shall be permitted to recover, through the PGC rate, 55% of the costs it pays through negotiated rate agreements with Texas Eastern which compensate Texas Eastern for improvements made to the Shippensburg Gate Station, which is the sole source of supply for this portion of the CPG service territory.

Settlement ¶ 20. This term creates an appropriate method of recovering gate station improvement costs from customer groups proportional to their usage. As such, this term addresses the OCA’s concerns in this proceeding.

### 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**

<b>PENNSYLVANIA PUBLIC UTILITY COMMISSION</b>	:	
	:	
v.	:	<b>Docket No. R-2016-2543311</b>
	:	
<b>UGI CENTRAL PENN GAS, INC.</b>	:	

**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 Central Penn Gas, Inc. (“UGI CPG” 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 CPG in this proceeding. In this proceeding, the OSBA's review of the Company's data indicates that UGI CPG'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 CPG in this proceeding. The OSBA also reviewed certain additional design day-related issues raised in this proceeding. *See Stipulation*, at Paragraph 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.

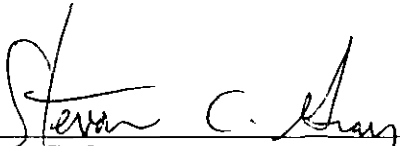
**Incentive Sharing Mechanism** – The OSBA also reviewed UGI CPG's capacity release/off-system sales sharing mechanism to ascertain whether it is working properly, and whether it is causing the Company to maximize the value of assets paid for by UGI CPG's customers. The OSBA also reviewed certain additional sharing mechanism issues raised in this proceeding. *See Stipulation*, at Paragraph 18. 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 CPG'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,

  
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Dated: August 16, 2016

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**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

:  
: **Docket Nos.** R-2016-2543311  
: C-2016-2544964  
: C-2016-2548845  
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**CERTIFICATE OF SERVICE**

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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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