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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 Utilities, Inc. – Gas Division.
Docket Nos. R-2016-2543309, C-2016-2544958, C-2016-2548840**

Dear Secretary Chiavetta:

Please find enclosed the Stipulation in Settlement of UGI Utilities, Inc. – Gas Division 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".

Mark C. Morrow
Counsel for UGI Utilities, Inc. – Gas Division

Enclosure
cc: Certificate of Service

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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PENNSYLVANIA PUBLIC UTILITY COMMISSION, et al.	:	Docket Nos.	R-2016-2543309
v.	:		C-2016-2544958
UGI UTILITIES, INC. – GAS DIVISION §1307(f)	:		C-2016-2548840

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

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

I. INTRODUCTION

1. UGI Utilities, Inc. – Gas Division (“UGI-Gas” 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 UGI-Gas 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-1 rate of \$4.8003 per Mcf and the PGC-2 rate of \$4.7623 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 UGI-Gas, I&E, OCA and OSBA.

II. BACKGROUND

3. UGI-Gas 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, UGI-Gas 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, UGI-Gas 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 Utilities, Inc. – Gas Division. Exhibit 1 consisting of that Company's Book 1 and Book 2 filings. Copies were provided to the court reporter and the ALJs and UGI-Gas 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-Gas, R-2016-2543311 for UGI Central Penn Gas, Inc. ("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, UGI-Gas 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 UGI-Gas will be \$4.8003 per Mcf for PGC-1 and \$4.7623 per Mcf for PGC-2, effective December 1,

2016, as proposed by UGI-Gas 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 UGI-Gas PGC rate is described in UGI-Gas Statement No. 1, the Direct Testimony of William J. McAllister.

17. 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 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 UGI 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 will provide an update on the Texas Eastern Marcellus to Market pipeline expansion project in its 2017 PGC testimony.

21. UGI-Gas 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 UGI-Gas's primary firm requirements and least-cost fuel procurement obligations, UGI-Gas shall be permitted to accept the UGIES offer.

IV. STANDARDS AND FINDINGS

22. This proceeding involves Commission review pursuant to Sections 1307 and 1318 of the Public Utility Code. Under Section 1307(f), the Commission, after hearing, must determine what portion of the gas costs UGI-Gas may recover for a previous 12-month period under the standards set forth in Section 1318. In addition, because UGI-Gas 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

23. With respect to UGI-Gas'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 UGI-Gas 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, UGI-Gas 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 UGI-Gas in support of the required statutory findings can be found in the following sections of UGI-Gas 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 William J.
McAllister, Senior Analyst – Rates.
- (h) Reliability (§1317(c)): Prefiling, Section 14.

B. Projected Period Findings

24. 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 UGI-Gas 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.

25. 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.

26. 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 UGI-Gas'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.

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

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

29. Except as otherwise specifically provided in this 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.

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

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

32. The Parties acknowledge and agree that this Settlement shall have the same force and effect as if the Parties had fully litigated this proceeding with regard to the historic period ended March 31, 2016.

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

34. This Settlement may be executed in counterparts.

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

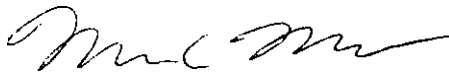
1. That ALJs Susan D. Colwell and Steven K. Haas and the Commission approve this Settlement, including all terms and conditions thereof;

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 UGI-Gas's December 1 PGC compliance filings, and (b) directing UGI-Gas to file a final tariff implementing such rates for gas service rendered by UGI-Gas on and after December 1, 2016; and

4. That the Commission terminate and mark closed its inquiry and investigation at Docket Nos. R-2016-2543309, C-2016-2544958, and C-2016-2548840.

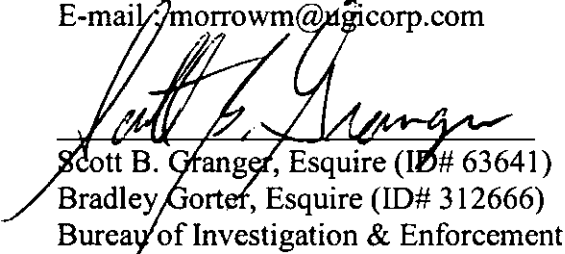
Respectfully submitted,



Date: 8-15-16

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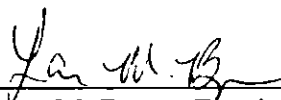
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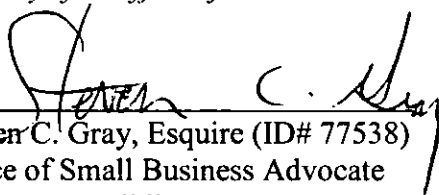
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Appendix A

(UGI-Gas Statement in Support)

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION, et al. v. UGI UTILITIES, INC. – GAS DIVISION §1307(f)	: : : : :	Docket Nos. R-2016-254309 C-2016-254958 C-2016-2548840
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**UGI UTILITIES, INC. – GAS DIVISION’S
STATEMENT IN SUPPORT OF
STIPULATION IN SETTLEMENT OF
SECTION 1307(f) RATE INVESTIGATION**

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

I. INTRODUCTION

UGI Utilities, Inc. – Gas Division (“UGI-Gas” 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 UGI-Gas, 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. UGI-Gas believes that this Settlement is in the best interests of UGI-Gas, its customers and the Joint Petitioners, and therefore is in the public interest and should be approved.

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

testimony, I&E's and OCA's direct testimony, UGI-Gas'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-2014-2420276. 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. No. 2, p. 8, lines 1-9. 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. No. 2, p. 8, lines 11 – 18. 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. No. 2, p. 9, lines 1-12.

In rebuttal testimony UGI-Gas 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. UGI-Gas Stmt. 1-R, p. 3, line 17 – p. 4, line 17. In surrebuttal I&E did

not contradict UGI-Gas'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, UGI-Gas and I&E came to a compromise position whereby UGI-Gas 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-2014-2420276, 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. ANR Capacity Release Credit to PGC

In its Book 2 filing, UGI-Gas reported that it had modified two Columbia firm transportation contracts to change the primary receipt points from Lebanon, Ohio to Leach, Kentucky. UGI-Gas Statement No. 3, p. 5 line 16 – p. 6, line 4. 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 UGI-Gas. Due to abundant Marcellus supplies, UGI-Gas explained that it currently does not utilize the ANR capacity from the Gulf Coast; would not renew its four ANR contracts 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. UGI-Gas Stmt. No. 3, p. 6, line 5 – p. 7, line 7. Because Columbia would only guarantee capacity at Leach by November 1, 2017, UGI-Gas 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. UGI-Gas Stmt. No. 3, p. 7, line 8 – p. 8, line 4.

In direct testimony, I&E witness Ethan Cline recommended that UGI-Gas 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 1-7. 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, UGI-Gas, 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. UGI-Gas Stmt. No. 2-R, p. 2, line 18 – p. 3, line 7. UGI-Gas 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. UGI-Gas Stmt. No. 2-R, p. 3, lines 7-16.

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. I&E Stmt. No. 1-SR, p. 2, lines 6-18. The Settlement adopts UGI-Gas's position and permits UGI-Gas to apply

the revenue sharing mechanism to 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

UGI-Gas Book 2, Schedule B, lists eight peaking service contracts the Company has entered into with UGI Energy Services, LLC (“UGIES”) that allow UGI-Gas to call on supplies for a specific number of days during the November through March winter period.¹ Under each of these contracts the Company spreads the payments for these services over a five-month period beginning in November. In direct testimony, I&E’s witness 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 1-9. Ms. Gumby cited as support for that recommendation the fact that UGI-Gas gas costs exceeded actual revenues for November by \$8,547,561 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 1 – 16.

UGI-Gas 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 UGI-Gas Stmt. No. 1-R, p. 4, line 20 – p. 5, line 7. Because the PGC rate is based on a twelve-

¹ The peaking service contracts with UGIES are identified as UGI ES Peak SVC I through UGI ES Peak SVC VII. The contract identified as Peak SVC was awarded to UGIES after publication of Book 2.

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.

month period, no mismatch of revenues in any one particular month impacts the E-Factor. UGI-Gas Stmt. No. 2-R, p. 5, lines 4 –17. 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. UGI-Gas Stmt. No. 1-R, p. 6, lines 9-17.

In surrebuttal I&E agreed with UGI-Gas’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. No. 2-SR, p. 9, line 13 – p. 10, line 7. The Settlement adopts the position of UGI-Gas 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. Pipeline Comparison Analysis

In accordance with the settlement of the UGI-Gas 2015 PGC Proceeding at Docket No R-2015-2480950, UGI-Gas provided in its Book 2 filing a cost comparison between its peaking service contracts with recently announced pipeline expansion projects. This analysis, at Exhibit UGI-ECB-2 to UGI-Gas Stmt. 3, demonstrates that there is currently no lower-cost alternative to UGI-Gas’s peaking contracts. In response, I&E witness Ethan H. Cline recommended in his direct testimony that UGI-Gas provide an annual update to the Texas Eastern project until the project is completed, the final cost is known, and the viability of the alternative to peaking services is determined. I&E Stmt. No. 1, p. 6, lines 15-19. During negotiations between the parties, it was clarified that I&E was specifically requesting an update on the Texas Eastern Marcellus to Market project. In rebuttal, UGI-Gas agreed to provide an update in its 2017 PGC

filing on the Texas Eastern Marcellus to Market project. UGI-Gas Stmt. No. 3-R, p. 3, line 18 - p. 4, line 5.

The Settlement is a compromise of the Company and I&E's positions and requires the Company to provide an update on the Texas Eastern Marcellus to Market pipeline expansion project in its 2017 PGC testimony. This Settlement term is reasonable, in the public interest and should be approved.

E. Peaking Service and Asset Management Agreement RFP Results

In its Book 2 filing, UGI-Gas identified that UGI-Gas's peak day capacity for Winter 2016-2017 is 14,977 dth per day short of peak day requirements for Winter 2016-2017 which is projected to increase by 1,707dth per day for Winter 2017-2018 and another 2,316 dth per day through Winter 2020-2021. UGI-Gas proposed to meet this shortfall through peaking services contract and issued a Request for Proposal ("RFP") for this peaking service contract. UGI-Gas Stmt. No. 3, p. 10, lines 4-15.

Also in its Book 2 filing UGI-Gas described a storage contract administration RFP, to address the expiration of the current storage contract administration agreement for ANR, Dominion Transmission and Egan Hub Partners storage services on October 31, 2016. UGI-Gas Stmt. No. 3, p. 8, lines 6-18. In direct testimony, OCA witness Jerome D. Mierzwa recommended that UGI-Gas present the results of both its peaking and Asset Management RFPs and its economic analysis of the bids received, indicate which of the bids it intends to accept, and justify the basis for its decision in its rebuttal testimony. OCA Stmt. No. 1, p. 4, lines 1-9.

In settlement negotiations between the parties, the Parties discussed the award of the peaking service contracts and asset management contracts. In rebuttal testimony UGI-Gas identified that it received three responses to the peaking RFP and selected UGIES as the winning

bidder because it was the only conforming offer that met the Company's primary firm requirements and which is backed by primary firm assets. UGI-Gas Stmt. 2-R, p. 3, line 15- p. 5, line 5.

Also, in rebuttal testimony UGI-Gas identified, with respect to the Asset Management RFPs that it had received three bids and decided to award the RFP in three separate pieces: awarding Supplier "A" a one-year Asset Management contract for UGI's ANR FSS storage and related transportation capacity; awarding UGIES a two and a half year Asset Management contract for Dominion GSS and GSS TE; and awarding Supplier "B" a two and a half year contract for Egan. The Company explained in testimony that by selecting three different asset managers, UGI-Gas was able to receive more value than awarding all of the fields to one supplier. UGI-Gas Stmt. 2-R, p. 3, lines 6 – 13.

Subsequently, the Company provided OCA in informal discovery, the results of both the peaking and Asset Management RFPs, along with an analysis of the bids received to the public parties. Based on the analysis the Parties have agreed that UGI-Gas shall be permitted to award the peaking and Asset Management contracts as proposed. This Settlement term is reasonable for the reasons described herein, is in the public interest, and should be approved.

F. 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 UGI-Gas's April 29, 2016 pre-filing, UGI-Gas'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 UGI-Gas's PGC filing through discovery and the submission of testimony. UGI-Gas 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

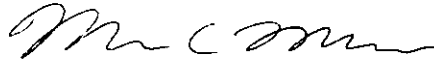
As explained above, the Settlement is in the public interest and should be approved. The Settlement was achieved only after considerable investigation of UGI-Gas's gas procurement practices, through both discovery and submission of testimony by a number of parties. The Settlement, if approved by Administrative 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, UGI-Gas's April 29, 2016 submission of pre-filing information, UGI-Gas's June 1, 2016 PGC filing and in the testimony filed by UGI-Gas in this proceeding.

The Settlement is the result of compromise. Each of the agreements set forth in the Settlement resolves a dispute fairly and without the expense and uncertainty associated with litigation. UGI-Gas 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 Utilities, Inc. – Gas Division

Dated: August 16, 2016

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 UGI'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, UGI 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), UGI submitted its 2016 PGC filing to the Commission, which included UGI's proposed *Pro Forma* Tariff Addendum to UGI Gas - Pa. P.U.C. No. 5, 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, UGI proposed a PGC-1 rate of \$4.8003 per Mcf for Rate Schedules R, N and GL; which would result in an increase of \$0.5341 per Mcf over the current PGC-1 rate of \$4.2662. Also in its filing UGI proposed a PGC-2 rate of \$4.7623 per Mcf for Rate Schedules BD and CIAC; which

would result in an increase of \$0.6696 per Mcf over the current PGC-2 rate of \$4.0927. *See*, UGI St. No. 1, p. 4; and Stipulation, ¶¶ 1, 16.

4. UGI'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. UGI St. No. 1, pp. 4-13. *See also*, I&E St. No. 1, pp. 5-7.

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, stranded ANR capacity releases and pipeline comparison analysis:

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 Lisa A. Gumby; and,

I&E Statement No. 2-SR and I&E Exhibit No. 2-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

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

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

2. UGI's 1307(f) Filing.

In its filing, UGI 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. UGI St. No. 1, pp. 17-18. *See also, 2014 Stipulation in Settlement*, ¶¶ 24-29 at Docket No. R-2014-2420276. 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. 2, 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. UGI St. No. 1, p. 17.

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

In response to UGI'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.

UGI 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. UGI St. No. 1-R, pp. 2-4. UGI 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. UGI St. No. 1-R, p. 4. Additionally, UGI referenced the current projection that costs and revenues will only vary by 0.9% as proof that the existing methodology is working. UGI St. No. 1-R, p. 1.

In response to UGI'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 UGI provided actual data was 12.78%. I&E St. No. 2-SR, p. 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. 2-SR, p. 8.

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

1. Settlement Terms.

In the Settlement, UGI 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. UGI's 1307(f) Filing.

In its filing, UGI proposed the release of stranded upstream pipeline capacity on its ANR pipeline contract. UGI St. No. 3, p. 8. UGI stated, effective November 1, 2017, UGI, 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. UGI St. No. 3, pp. 5-8. Columbia, however, would only

agree to shift the receipt points if UGI would agree to the November 1, 2017 date for the shift. UGI St. No. 3, pp. 6-7. And, because the ANR pipeline contracts don't terminate until March 13, 2019, according to UGI, the upstream ANR pipeline capacity will effectively be stranded from November 1, 2017 through the March 31, 2019 contract termination date. UGI St. No. 3, pp. 6-8.

3. I&E's Response to UGI'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, pp.2-3. However, in the case of the ANR pipeline capacity, once the delivery point is switched, as described by UGI, UGI customers will not have the opportunity to make use of this stranded pipeline capacity. I&E St. No. 1, p. 3. I&E believed this was a significant issue because the stranded ANR capacity would not be available for use by UGI 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, p. 4.

UGI 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 UGI; but rather, would still be available to UGI customers as a last resort or in case of an unforeseen catastrophe. I&E is satisfied with UGI'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 UGI, and provides protection from pipeline capacity volatility; all of which are consistent with protecting the public interest.

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

1. Settlement Terms.

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

2. UGI’s 1307(f) Filing.

UGI maintains several contracts (UGIES Peak Services I through VII) with its affiliate, UGIES, for winter peak needs. UGI St. No. 3, pp. 3-4; and, UGI St. No. 3-R, p. 5. *See also* I&E St. No. 2, pp. 6-7. UGI pays UGIES a demand charge to reserve this service. UGI St. No. 3-R, p. 5. The Company spreads the payments for these services over a five-month period beginning in November. I&E St. No. 2, p. 6. In November 2015, the actual results reflect revenues of \$7,197,554 compared to gas costs of \$15,745,115. *See* I&E St. No. 2, p. 7, *citing* UGI Book 2, Sch. C, p. 5. The end result was an under collection of (\$8,547,561). I&E St. No. 2, p. 7.

3. I&E’s Response to UGI’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, pp. 6-10. 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. 9. 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. 2, p. 9. 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. 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. 2-SR, pp. 9-13. 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-SR, pp. 10-13. 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, p. 11. I&E argued UGI should consider revising its future contract terms and request for proposals to specify alternative payment schedules that would eliminate a November payment.

In response, UGI 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. UGI St. No. 1-R, pp. 4-6, and UGI ST. No. 3-R, p. 6. Instead, UGI 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. UGI St. No. 1-R, p. 6; and UGI St. No. 3-R, p. 6. Due to the time value recognition of interest weighting, as described by UGI witness McAllister, moving the payment to December would increase the weighting to 18 versus the interest weighting of 7 applied to balances in November. UGI St. No. 1-R, p. 6. This, UGI argued, would have added \$505,000 of incremental interest to ratepayers for the past PGC year. UGI St. No. 1-R, p. 6. UGI also argues that because the contracts with its affiliate UGIES are arms-length agreements, UGI cannot simply modify the payment terms during the life of the current contracts. UGI St. No. 3-R, pp. 6-7.

I&E acknowledges UGI'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 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. 2-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. 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 its decision to ultimately withdraw this issue from this year's 1307(f) proceeding.

D. Pipeline Comparison Analysis (Stipulation ¶ 20).

1. Settlement Terms.

In the Settlement, UGI and the Parties agree that the Company will provide an update on the Texas Eastern Marcellus to Market pipeline expansion project in its 2017 PGC testimony.

2. UGI's 1307(f) Filing.

In UGI's 2015 PGC proceeding Settlement at Docket No. R-2015-2480905, UGI agreed to provide in its 2016 1307(f) filing a detailed analysis of the costs and functionality of its peaking contracts as compared to any services that become available on the Transco Diamond East, Texas Eastern A2M, and Texas Eastern Marcellus to Market projects. UGI St. No. 3, p. 14. The theory was that if the analysis shows that services from the expansion projects are a lower cost alternative to any of UGI's expiring peaking service contract(s), consistent with its least-cost fuel procurement obligations, the peaking service contracts would be replaced with a service from the expansion

project(s). UGI St. No. 3, p. 14. In this proceeding, UGI provided Exhibit No. UGI-DCB-3, which compares the costs and functionality of the pipeline expansion projects and the peaking service contracts. As shown on the exhibit, the Transco Diamond East project has been suspended, leaving only the two Texas Eastern projects as potentially viable options. *See* Exh. No. UGI-DCB-3. *See also* UGI St. No. 3, p. 14.

UGI stated that the potential in-service date of both of Texas Eastern's projects is at least two years away, and are therefore, unavailable to replace any of the peaking services that UGI currently holds. UGI St. No. 3, p. 15. Further, UGI currently holds two day-ahead peaking service contracts at a higher cost than the estimated price of the Texas Eastern Marcellus to Market expansion project. UGI St. No. 3, p. 15. Those contracts expire in 2018 and 2020 respectively. However, the rate provided by Texas Eastern for this project is only an estimate at this time based upon non-binding capacity requests. This rate could change as Texas Eastern finalizes the project based on binding bids. Pipeline expansion capacity costs are subject to increase if Texas Eastern encounters cost overruns in the development of the project. UGI will continue to proceed with this project with Texas Eastern and, when binding capacity bids are required and the price becomes firm, UGI will make a decision on whether to purchase the incremental capacity or extend the peaking contracts. UGI St. No. 3, p. 15.

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

Based on the testimony and the detailed analysis provided by UGI in this 2016 1307(f) proceeding, I&E recommended that UGI provide an annual update to this comparison in each subsequent annual PGC proceeding until the Texas Eastern Marcellus

to Market project is completed, the final cost is known, and the viability of the alternative to peaking services is determined. I&E St. No. 1, p. 6.

I&E believes the agreed upon Settlement terms reflect the shared agreement among UGI and the Parties and I&E fully supports the Settlement terms. I&E also believes that the agreed upon terms are consistent with prior Commission decisions, and provides guidance and stability to UGI, which are consistent with protecting the public interest.

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.

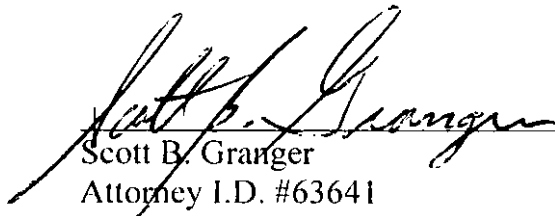
17. The Settlement is conditioned upon the Commission's approval of all terms without modification. Should the Commission fail to grant such approval or otherwise modify the terms and conditions of the Settlement, it may be withdrawn by the Company, I&E, or any other Party.

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 UGI 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
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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-2016-2543309
 :
 UGI Utilities, Inc. – Gas Division :

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 Utilities, Inc. – Gas Division’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 Section 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 \$4.8003 per Mcf for the residential class, which is an increase of \$0.5341 per Mcf, or an increase of 6% to a typical Residential Heating customer’s bill.

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 and asset management services RFP results.

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 this Settlement is in the public interest.

II. TERMS AND CONDITIONS OF THE SETTLEMENT

The following represents the terms of the Settlement that address the OCA's concerns in this case.

A. Peaking Service and Asset Management Agreement RFP Results

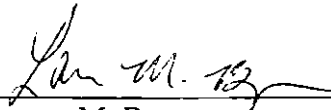
In his Direct Testimony, Mr. Mierzwa expressed his concern regarding responses to RFPs for peaking service and storage asset management services that were received by UGI in the week before Direct Testimony was filed in this proceeding. OCA St. 1 at 4. Mr. Mierzwa recommended that the Company "present the results of its RFPs and its economic analysis of the bids received, indicate which of the bids it intends to accept, and justify the basis for its decision in its rebuttal testimony." Id.

The Company addressed Mr. Mierzwa's concerns through its Rebuttal Testimony and through the Settlement. As explained in Settlement Paragraph 21, "UGI-Gas 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." As OCA witness Mierzwa requested, the RFP results were provided to the OCA, along with a satisfactory explanation for why the UGIES 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.

UGI UTILITIES, INC. – GAS DIVISION

:
:
:
:
:
:

Docket No. R-2016-2543309

**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 Utilities, Inc. – Gas Division (“UGI” 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 in this proceeding. In this proceeding, the OSBA's review of the Company's data indicates that UGI'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 in this proceeding. The OSBA also reviewed certain additional design day-related issues raised in this proceeding. *See Stipulation*, at Paragraph 21. 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.

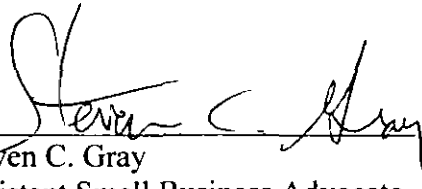
Incentive Sharing Mechanism – The OSBA also reviewed UGI's capacity release/off-system sales sharing mechanism to ascertain whether it is working properly, and whether it is causing the Company to maximize the value of assets paid for by UGI's customers. The OSBA also reviewed certain additional sharing 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'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
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Harrisburg, PA 17101

Dated: August 16, 2016

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION, et al.	:	Docket Nos. R-2016-2543309
v.	:	C-2016-2544958
UGI UTILITIES, INC. – GAS DIVISION §1307(f)	:	C-2016-2548840

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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