PENNSYLVANIA PUBLIC UTILITY COMMISSION
HARRISBURG, PENNSYLVANIA 17105

Pennsylvania Public Utility Commission v. UGI Utilities, Inc. – Gas Division

Public Meeting: September 1, 2016
2518438-ALJ
Docket R-2015-2518438, et al.

MOTION OF VICE CHAIRMAN ANDREW G. PLACE

Before the Commission is UGI Utilities, Inc. – Gas Division's (UGI, or Company) January 19, 2016 distribution base rate increase filing at Docket No. R-2015-2518438, and the terms and conditions of the Joint Petition for Settlement of all Issues by the parties in the proceeding.

While I am supportive of the Settlement in this case, I propose a clarification regarding the terms of the agreement. In order to reach agreement, the parties in this case did not identify a specific return on equity (ROE) for Distribution System Improvement Charge (DSIC) computation purposes. However, Act 11 of 2012 requires that companies using a DSIC calculate depreciation using the ROE calculated in the utility's most recent base rate proceeding or, if the proceeding was over two years ago, using the rate calculated by the Commission in the most recent Quarterly Report of the Earnings of Jurisdictional Utilities (Quarterly Report).

Because there is no clear statement of ROE for DISC computation within this base rate proceeding, I recommend that, to the extent applicable, the Company use the ROE rate stipulated in the most current staff Quarterly Report. I also want to clarify, that on a going forward basis, UGI should update its ROE for DSIC purposes consistent with any changes in the ROE in the Quarterly Report.

In addition, parties to rate case proceedings are reminded that, in accordance with Section 1357(b)(2) of the Public Utility Code, and consistent with our DSIC Implementation Order, it is strongly suggested that rate case settlements include a stipulated ROE for the calculation of the DSIC. This stipulation may simply be a reference to use the most current staff Quarterly Report.

Secondly, UGI proposes to include a Combined Heat & Power (CHP) program as part of its Energy Efficiency and Conservation (EE&C) program. This program is essentially the only natural gas EE&C program targeted for large customers (rate schedule LFD). The program will target large commercial and industrial customers with high thermal and electric loads, such as hospitals, college campuses and multi-shift industrial customers. Due to the current state of avoided costs, UGI anticipates that it will be difficult to find cost-effective projects that are below 1,000 kW. Budgeted projects include 5-3,326kW projects and 3-7,038kW projects.

Previously, the Commission has rejected the inclusion of CHP programs in natural gas EE&C programs. In general, natural gas EE&C programs are designed to reduce the usage of natural gas. CHP programs, to the contrary, usually result in higher natural gas usage, but produce an overall reduction in total energy usage. As such, CHP programs are more akin to market development projects, in addition to being energy efficient. Thus, the Commission had rejected CHP programs in natural gas EE&C plans.

However, in this instance, and under the additional conditions below, I recommend support for this proposal. Several unique conditions exist in this case.

First, the CHP program is targeted to LFD customers. This customer segment will fund these proposals, and receive the benefits. Thus, no other rate classes will be impacted. Secondly, the Company has agreed to track these projects separately because the fuel-switching program will result in an increase in gas usage that should not be conflated with the savings from the energy efficiency programs. Lastly, it is important for the Company to offer programs that may be attractive to this larger customer segment, and that can enhance the long term competitiveness of our commercial and industrial sector.

My support for this CHP program is however conditioned as follows. As noted above, CHP programs are most appropriately categorized as market development projects. The economic tests for market expansion/extension vary substantially from the Total Resource Cost (TRC) test and the proposed Program Administrator Cost (PAC) test proposed for this EE&C plan. As such, UGI should develop an economic test consistent with the Company's new business extension tariff. The economic test will permit the incremental revenue benefits to the Company to be compared with the CHP program costs, including the incentive costs of the program paid by customers. This method will help ensure that CHP program participants are not being subsidized by non-participants in the long run. Thus, UGI should include this information in its annual EE&C reports.

Lastly, I wish to make one administrative correction to page 71 of the Administrative Law Judge's Recommended Decision (RD). More specifically, the RD states:

> In Settlement Paragraph 84, UGI agrees to adjust its Rate N Merchant Function Charge (MFC) to 9.36% and its Rate N Purchase of Receivables (POR) discount to 0.50%.

This sentence should be corrected to state:

> In Settlement Paragraph 84, UGI agrees to adjust its Rate N Merchant Function Charge (MFC) to 0.36% and its Rate N Purchase of Receivables (POR) discount to 0.50%.

THEREFORE, I move that:

1. The Joint Petition for Settlement be approved.

2. The Recommended Decision be adopted, as modified by this Motion.

3. The Office of Special Assistants prepare an Opinion and Order consistent with this Motion.

[signature]

DATE: September 1, 2016 **Andrew G. Place, Vice Chairman**