

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2016-2543314
Office of Consumer Advocate	:	C-2016-2544985
Office of Small Business Advocate	:	C-2016-2548847
	:	
v.	:	
	:	
UGI Penn Natural Gas, Inc. 1307(f)	:	

RECOMMENDED DECISION

Before
Steven K. Haas
Administrative Law Judge

INTRODUCTION

This decision recommends approval and adoption of a full settlement of a natural gas distribution company's annual purchased gas cost tariff. The company's current rate for recovery of purchased gas costs is \$3.0248 per Mcf. The rate proposed by the company was \$3.0248 per Mcf. The rate agreed to in the settlement is \$3.0248 per Mcf. The company's current retainage rate, which reflects lost and unaccounted for and company use gas, is 0.9%. This figure was not challenged or altered by the settlement in this proceeding.

HISTORY OF THE PROCEEDING

On April 29, 2016, UGI Utilities, Inc. – Gas Division (UGI), UGI Central Penn Gas, Inc. (CPG) and UGI Penn Natural Gas, Inc. (PNG) (collectively UGI Companies) submitted their pre-filing preliminary information in support of their annual purchased gas cost tariffs (PGC) pursuant to 52 Pa. Code §§53.64 and 53.65. The three proceedings were consolidated for

litigation but not for decision. This Recommended Decision (RD) addresses the PNG filing at R-2016-2543314 only.

On May 12, 2016, the Pennsylvania Office of Consumer Advocate (OCA) filed a Notice of Appearance and Formal Complaint in each of the UGI Companies' proceedings as captioned above.

On May 12, 2016, the Commission's Bureau of Investigation & Enforcement (I&E) filed Notices of Appearance in each of the UGI Companies' proceedings.

Definitive PGC filings were filed on June 1, 2016. The proposed PGC tariffs have proposed effective dates of December 1, 2016.

On June 2, 2016, the Office of Small Business Advocate (OSBA) filed A Notice of Appearance and Formal Complaint in each of the UGI Companies' proceedings as captioned above.

After consultation with counsel, a Prehearing Conference was scheduled for Monday, June 6, 2016. A prehearing order was issued on June 1, 2016, which set forth some of the requirements for formal proceedings before the Commission and directed that prehearing memoranda be filed by the parties on or before noon on June 3, 2016. Each party complied with this directive by filing a timely prehearing memo.

The Prehearing Conference was held as scheduled, with the following counsel appearing: on behalf of the three UGI companies, Danielle Jouenne, Esq., on behalf of the OCA, Lauren M. Burge, Esq., on behalf of the OSBA, Steven Gray, Esq., and on behalf of I&E, Scott Granger, Esq. At the prehearing conference, UGI introduced UGI Penn Natural Gas, Inc. Exhibit No. 1, consisting of that company's Book 1 and Book 2 filings, submitted pursuant to 52 Pa.Code §§ 53.64(c) and 53.65.

The parties agreed upon a litigation schedule, which was set forth and adopted in the Scheduling Order issued on June 6, 2016. Counsel for the UGI companies indicated during the Prehearing Conference that a proposed protective order would be circulated and then filed in the near future. On June 17, 2016, Counsel for the UGI companies e-filed and served a Joint Petition for Protective Order, and represented that the Joint Petition was not opposed by any of the other parties. Accordingly, the Joint Petition was granted by Order dated June 20, 2016.

Prior to the hearing on July 25, 2016, the parties informed the ALJ that they had reached a full settlement of all issues. The hearing was held as scheduled on July 25 for the purpose of admitting the verified written testimony and exhibits of the parties into the record. Also admitted into the record was PNG's Exhibit No. 1, consisting of PNG's preliminary PGC data and exhibits (Book 1) and its definitive PGC filing (Book 2). All parties waived cross-examination of all witnesses.

The parties submitted their Joint Petition for Full Settlement on August 16, 2016. The record closed upon its receipt. The matter is now ripe for disposition.

FINDINGS OF FACT

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

2. The Office of Consumer Advocate is authorized to represent the interests of consumers before the Commission. Act 161 of 1976, 71 P.S. Section 309-2.

3. The Commission's Bureau of Investigation and Enforcement (I&E) serves as the prosecutory bureau for purposes of representing the public interest in ratemaking and service matters before the Office of Administrative Law Judge and enforcing compliance with

the state and federal motor carrier safety and gas safety laws and regulations. *Implementation of Act 129 of 2008 Organization of Bureaus and Offices*, Docket No. M-2008-2071852 (Order entered August 11, 2011).

4. The Office of Small Business Advocate is authorized and directed to represent the interest of small business consumers of utility service in Pennsylvania under the provisions of the Small Business Advocate Act, Act 181 of 1988, 73 P.S. §§ 399.41-399.50.

5. The parties have filed a complete Stipulation in Settlement, signed by the Company, OCA, OSBA, and I&E.

The following terms are taken directly from the Settlement, and the numbering appearing in the Settlement is retained for ease of reference:

III. GENERAL PROVISIONS OF SETTLEMENT

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

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

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

fuel procurement obligations, PNG shall be permitted to accept the UGIES offer.

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

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

IV. STANDARDS AND FINDINGS

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

A. Historic Reconciliation Period Standards

22. With respect to PNG's gas purchases and gas purchasing practices during the twelve-month historic reconciliation period ending March 31, 2016, all Parties agree, and request the Commission to find, that PNG has met the standard set forth in Section 1318 of the Public Utility Code, as required by Section 1307(f)(5) of the Public Utility Code, as to all historic period purchased gas costs. All Parties request that the Commission find, pursuant to Section 1307(f)(5) of the Public Utility Code, and based upon the evidence presented by the Parties in this case, that, during the twelve-month period ended March 31,

2016, PNG has met the requirements of Section 1318 of the Public Utility Code by pursuing a least-cost fuel procurement policy, consistent with its obligation to provide safe, adequate and reliable service to its customer. Information submitted by PNG in support of the required statutory findings can be found in the following sections of PNG Exhibit 1:

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

23. With respect to the twelve-month period beginning December 1, 2016, the period of time during which the proposed rates contained in this Settlement would be in effect, all Parties agree and request the Commission to find that PNG has satisfied each of the standards for a least cost procurement policy set forth in Section 1318 of the Public Utility Code, including the standards set forth in Sections 1318(a)(1), 1318(a)(2), 1318(a)(3), 1318(a)(4), 1318(b)(1), 1318(b)(2), and 1318(b)(3), based upon the evidence of record in this proceeding. Nevertheless, it is expressly understood and agreed that such findings, relating to the rates to become effective December 1, 2016, are made solely for the purpose of setting prospective rates and shall be subject to further review in an appropriate future proceeding. This Section of the Settlement, Section IV.B., is not intended to limit or prevent any party from challenging projected gas purchases that actually have been made, including those made during the interim period of April 1, 2016, through November 30, 2016, and future gas purchasing practices that have been implemented, or from reviewing whether these gas purchases and gas purchasing practices have, in fact, complied with the standards of Section 1318, except as provided in Section III above.

24. If, in an appropriate future proceeding, gas purchases and gas purchasing practices relating to the period December 1, 2016, through November 30, 2017 are challenged, the Commission's findings made pursuant to Section IV.B. of this Settlement shall pose no bar to the examination of such purchases and practices including, but not limited to, disallowance of or reductions to, such costs during the one-year period commencing December 1, 2016, except as provided in Section III above.

25. The Parties also agree that future examination of the gas costs relating to the period April 1, 2016, through November 30, 2016, to determine whether PNG's experienced and projected gas purchases and gas purchasing practices complied with the standards set forth in Section 1318 of the Public Utility Code, 66 Pa. C.S. § 1318, shall be permitted and that the Commission's adoption of the findings under Section IV.B. of this Settlement shall not be construed to limit or prevent any disallowance or reduction of such costs, except as provided in Section III above.

End direct quote from Stipulation in Settlement.

DISCUSSION

Commission policy is to encourage settlements, which are often preferable to the results of a fully litigated proceeding. 52 Pa.Code §§ 5.231, 69.401.

The Commission must determine that a settlement is in the public interest in order to approve it. *Pa. Pub. Util. Comm'n v. The York Water Company*, PUC Docket No. R-00049165, Order entered October 4, 2004; *Pa. Pub. Util. Comm'n v. C S Water and Sewer Associates*, 74 Pa. PUC 767 (1991); I&E Stmt. in Support at 4, quoting *Pa. Pub. Util. Comm'n v. Philadelphia Electric Company*, 6 Pa. PUC 1, 22 (1985). In the present case, the three public advocates, after extensive discovery and negotiations, have signed an agreement that fully resolves all outstanding issues in this proceeding.

In addition to the obvious benefits of avoiding the expense of full litigation, the public interest is served by a determination that the statutory requirements of the Public Utility Code have been met. For the reasons set forth in more detail in the following discussion, approval of the Settlement is recommended because this Settlement resolves the issues in this case, fairly balances the interests of PNG and its ratepayers, is in the public interest, and is consistent with the requirements of Sections 1307 and 1318 of the Public Utility Code, 66 Pa.C.S. §§ 1307, 1318.

As noted in the Settlement, before the Commission can find that the proposed rates are just and reasonable, the Commission must find that PNG is pursuing a least cost fuel procurement policy, consistent with its obligation to provide safe, adequate and reliable service to its customers. To make this determination, the Public Utility Code requires the Commission to make seven specific findings. Four are in Section 1318(a):

(1) That the utility has fully and vigorously represented the interests of its ratepayers in proceedings before the Federal Energy Regulatory Commission (FERC);

(2) That the utility has taken all prudent steps necessary to negotiate favorable gas supply contracts and to relieve the utility from terms in existing contracts with its gas suppliers which are or may be adverse to the interest of the utility's ratepayers;

(3) That the utility has taken all prudent steps necessary to obtain lower cost gas supplies on both short-term and long-term bases both within and outside the Commonwealth, including the use of gas transportation arrangements with pipelines and other distribution companies; and,

(4) That the utility has not withheld from the market or caused to be withheld from the market any gas supplies which should have been utilized as part of a least cost fuel procurement policy.

Because PNG purchases part of its gas from affiliated interests, Section 1318(b) requires the Commission to make the following three additional findings:

(5) That the utility has fully and vigorously attempted to obtain less costly gas supplies on both short-term and long-term bases from non-affiliated interests:

(6) That each contract for the purchase of gas from its affiliated interest is consistent with a least cost fuel procurement policy; and

(7) That neither the utility nor its affiliated interest has withheld from the market any gas supplies which should have been utilized as part of a least cost fuel procurement policy.

1. Whether PNG has fully and vigorously represented the interests of its ratepayers in proceedings before the Federal Energy Regulatory Commission.

Section 3 of PNG's pre-filing information contains the Company's response to Commission regulations, 52 Pa.Code § 53.64(c)(4), indicating that PNG is an active local distribution company before the FERC in all relevant pipeline regulatory proceedings. Its participation is designed to minimize the purchased gas cost and/or improve the level or quality of service provided to PNG by its interstate pipeline suppliers. A listing of FERC proceedings is included in the pre-filing information at Section 3. PNG states:

Because the FERC has jurisdiction over the pipeline transportation and storage services included in PNG's supply

portfolio, PNG is an active local distribution company before the FERC in all relevant pipeline regulatory proceedings.

PNG actively monitors many different FERC proceedings or initiatives either individually or through the American Gas Association. PNG will intervene in, file comments regarding, protest, or otherwise participate in specific pipeline proceedings or FERC initiatives as necessary. This activity is designed to minimize the purchased gas cost and/or improve the level or quality of service provided to PNG by its interstate pipeline suppliers.

No party to this proceeding questioned or otherwise challenged PNG's efforts and activities in representing the interests of its ratepayers in proceedings before the Federal Energy Regulatory Commission. The information submitted by PNG adequately addresses and satisfies the statutory requirement.

2. Whether PNG has taken all prudent steps necessary to negotiate favorable gas supply contracts and to relieve the utility from terms in existing contracts with its gas suppliers which are or may be adverse to the interest of the utility's ratepayers.

The parties agree that PNG has taken all prudent steps necessary to negotiate favorable gas supply contracts and to relieve the utility from terms in existing contracts with its gas suppliers which are or may be adverse to the interest of the utility's ratepayers. Support for this finding is found in Sections 2 and 5 of the pre-filing information.

PNG states, in section 2 of its pre-filing information:

. . . PNG implements its least cost procurement strategy while balancing reliability and price stability by managing a portfolio of supplies from a diverse set of sources.

. . .

Each month, PNG receives bids from producers and marketers for short-term and long-term purchases. . . . PNG first buys gas from the lowest cost reliable bidder. If the volume offered at that price is insufficient to meet full requirements or the take away capacity available from that receipt point is insufficient, then the remaining

requirements are acquired at the next higher price. This incremental process continues until all requirements are met.

PNG, further states, in Section 5 of its pre-filing information:

Annually and seasonally, PNG's planning tools determine system capacity requirements. PNG then aggressively pursues available market options to fill any incremental capacity needs. . . . Since PNG analyzes its portfolio for the lowest cost options, PNG is continually implementing a plan based on a least cost optimization of the entire asset portfolio.

The information submitted by PNG adequately addresses and satisfies this statutory requirement.

3. Whether PNG has taken all prudent steps necessary to obtain lower cost gas supplies on both short-term and long-term bases both within and outside the Commonwealth, including the use of gas transportation arrangements with pipelines and other distribution companies, in compliance with 66 Pa.C.S. § 1318.

PNG's support for this requirement is found in Sections 1, 2 and 5 of PNG's pre-filing information.

PNG states, in section 5 of its pre-filing information:

PNG's fuel procurement practices are designed to meet the natural gas requirements of its firm customers following a least cost procurement strategy, providing secure and reliable capacity and supplies and promoting price stability.

It further states:

PNG implements its least cost procurement strategy while balancing reliability and price stability by managing a portfolio of supplies from a diverse set of sources. During the 12-month historic period, April 2015 through March 2016, PNG purchased its supplies, including those utilized for storage injection, from producers and marketers. These purchases were delivered via FT (Firm Transportation) on Columbia, Tennessee, and Transco; via direct supply from UGI Energy Services; or via peaking facilities

and local production directly connected to PNG's distribution system.

Supplies not selected in 2015-2016 fall outside two categories:

(1) Each month, PNG receives bids from producers and marketers for short-term and long-term purchases. Purchases are evaluated using least cost economic dispatch based on the incremental cost of the gas delivered to the city gate via each pipeline route. PNG first buys gas from the lowest cost reliable bidder. If the volume offered at that price is insufficient to meet full requirements or take away capacity available from that receipt point is insufficient, then the remaining requirements are acquired at the next higher price. This incremental process continues until all requirements are met.

* * *

(2) PNG continually evaluates the market competitiveness of its term contracts. PNG regards term contracts as those having multiple months. The choice to maintain or terminate a contract is based on the performance of the supplier, price changes, fixed charges, location of the gas, capacity or cost changes on the connecting pipeline, the competitive nature of the commodity provisions, the ability to deliver the gas at pooling receipt points and the supply purchase requirements. These contracts are subject to firm deliverability requirements because they supply gas to firm residential and commercial customers with no alternative energy source.

PNG's criteria for firm supply contract selection include, among other measures, competitive prices, prudent price renegotiation provisions, market-out provisions, deliverability warranties or contingencies, and to the extent possible, acceptable creditworthiness assurances and indemnification for liabilities beyond PNG's control.

Pre-filing information, Section 2.

The information submitted by PNG adequately addresses and satisfies the statutory requirement.

4. Whether the utility has not withheld from the market or caused to be withheld from the market any gas supplies which should have been utilized as part of a least cost fuel procurement policy.

PNG's evidence regarding this issue appears in Section 5 of the pre-filing information. No party has opposed these statements, which adequately address and satisfy the statutory requirements.

5. Whether the utility has fully and vigorously attempted to obtain less costly gas supplies on both short-term and long-term bases from non-affiliated interests.

PNG's evidence in support of this finding is set forth in Sections 1, 2 and 5 of the pre-filing information. PNG's claim that it has fully and vigorously attempted to obtain less costly gas supplies on both short-term and long-term bases from non-affiliated interests in accordance with Section 1318(b)(1) is accepted. The information submitted by PNG adequately addresses and satisfies the statutory requirement.

6. Whether each contract for the purchase of gas from its affiliated interest is consistent with a least cost fuel procurement policy.

This finding requires an examination of PNG's supply arrangements with its affiliated suppliers to determine whether they satisfy PNG's obligation to pursue a least-cost fuel procurement policy consistent with its obligation to provide safe, adequate, and reliable service. The evidence supporting the requirement is contained in Section 13 of the pre-filing information and shows that PNG's contractual relationships with its affiliates is consistent with the standards set forth in 66 Pa.C.S. § 1318(b)(2). The information submitted by PNG adequately addresses and satisfies the statutory requirement.

7. Whether the utility or its affiliated interest has withheld from the market any gas supplies which should have been utilized as part of a least cost fuel procurement policy.

PNG's evidence in support of this finding is set forth in Section 5 of the pre-filing information. There is no evidence or information that indicates that PNG has withheld from the market any gas supplies that should have been utilized as part of a least cost procurement policy. No party has opposed or otherwise challenged the information presented by PNG. The information submitted by PNG adequately addresses and satisfies the statutory requirement.

C-Factor/E-Factor Calculation

As of September 2015, PNG had calculated its September 1st PGC C-Factor adjustment using a six-month remaining life volume pursuant to the 2014 PGC settlement at Docket No. R-2014-2420273. In its direct testimony, I&E recommended that PNG use an actual three-month remaining life to calculate the C-Factor for the final quarter. I&E was concerned that basing the September 1st PGC reconciliation on a six-month remaining life volume created the possibility that the over/under collections would not be recovered by the rate set in the final quarter. I&E acknowledged that calculating the September 1st PGC reconciliation over a smaller volume could create more volatility, but believed that this was mitigated by the 2014 PGC Settlement's quarterly rate adjustment cap of 25% to limit volatility. PNG argued in rebuttal testimony that calculating the C-Factor over three months, rather than 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.

The parties have agreed on a compromise position whereby PNG will calculate the September 1st PGC adjustment using a three-month remaining life volume, but the cap for the quarterly PGC rate change will be lowered to 15%.

PNG states that the settlement term addresses its concerns about rate volatility while accepting I&E's recommendation to use a three-month remaining life volume. PNG Stmt. in Support at 3. 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. I&E Stmt. in support at 7.

This settlement term constitutes a reasonable compromise that addresses the various concerns raised by the parties and is in the public interest.

PNG Peaking Contract Payment Schedule

In its Book 2, Schedule B, PNG lists three peaking service contracts the Company has entered into with UGI Energy Services, LLC (“UGIES”) that allow PNG to call on supplies for a specific number of days during the November through March winter period. Under one contract, PNG pays all of the demand charges in December, for another, PNG pays all of the demand charges in November and for the third PNG pays demand charges in November, December, January, February, and March. PNG Exhibit 1, Book 2, Schedule B, p. 12. I&E recommended that the peak service schedules be modified to remove the November payment from the peak service contracts. I&E cited as support for that recommendation the fact that PNG gas costs exceeded actual revenues for November by \$1,078,020 creating an “under collection” and that this “mismatch” of costs and revenues may contribute to a larger E-Factor.

In response, PNG argued 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 an 8% interest rate that will be collected from the ratepayers via the E-Factor. Because the PGC rate is based on a twelve-month period, no mismatch of revenues in any one particular month impacts the E-Factor. PNG argued that 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.

I&E ultimately agreed with PNG’s assertion that the interest weighting factor is higher in December than in November, but argued that if the over and under collection in November was more closely matched, that would minimize interest factor.

The parties have agreed to adopt the position of PNG and are not requiring the Company to change the payment schedule of its peaking contracts.

I&E accepts PNG's position, but recommends that, as the peaking service contracts expire, PNG 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 Stmt. in Support at 10.

The Settlement of this issue followed extensive negotiation among the parties. The settlement reflects consideration of this issue by the parties and represents a compromise that is in the public interest.

Peaking Service RFP Results

In its Book 2 filing, PNG identified that PNG's peak day capacity for Winter 2016-2017 is 11,230 dth per day short of peak day requirements, with a projected shortage increase of 2,754 dth per day in Winter 2016-2017 and an additional 2,596 dth per day through Winter 2020-2021. PNG proposed to meet this shortfall through a peaking services contract and issued a Request for Proposal ("RFP") for this peaking service contract.

The OCA accepted PNG's design day forecasts because the alternatives examined did not produce significantly different results. In settlement negotiations between the parties, the Parties discussed the award of the peaking service contract to meet the peak day requirements. PNG identified that it has selected UGIES as the winning bidder of the RFP because it was the only conforming offer that met the Company's primary firm requirements and is backed by primary firm assets. In informal discovery, PNG provided to OCA the results of the RFP, along with an analysis of the bids received to the public parties. Based on the analysis and consistent with PNG's primary firm requirements and least-cost fuel procurement obligations, the parties have agreed that PNG shall be permitted to accept the UGIES offer. This Settlement term is reasonable, in the public interest and should be approved.

Forest City LNG Supply Costs

In PNG Exhibit 1, Book 2, PNG explained that maintenance and upgrades to the eastern line portion of the Company's distribution system connecting the Uniondale gate station to Forest City will require that the eastern line be taken out of service between the months of April through October during 2016 and 2017. The Company has identified temporary liquefied natural gas ("LNG") storage and vaporization as a supply solution for Forest City and sought recovery through its PGC rates for the costs incurred for the Forest City LNG supply service.

OCA recommended limiting PNG's recovery through its PGC rate to the same level of costs that would have been recovered through PGC rates as if the eastern line were not taken out of service. PNG, in its rebuttal, contended that LNG costs are "natural gas costs" under 66 Pa. Code § 1307(h) and eligible for recovery in the PGC rate.

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

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

It is PNG's position that these terms addressing the recovery of costs associated with the service interruption to Forest City represent a reasonable compromise and will enable

PNG to recover a portion of LNG supply costs it is incurring and will incur to maintain service to Forest City during the interruptions, are in the public interest and should be approved. PNG Stmt. in Support at 7.

OCA states that the cost sharing mechanism assigns an appropriate proportion of LNG supply costs to PGC customers based on this customer group's share of supply and facility costs during the applicable time period and, accordingly, addresses OCA's concerns regarding the company's recovery of LNG supply costs in the forest City area. OCA Stmt. in Support at 3.

This Settlement term is reasonable, in the public interest and should be approved.

Other terms

The Stipulation contains the usual language regarding the effect of the Stipulation and the effect if the Commission does not act in a timely manner.¹

¹ 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.

1. 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.

2. 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.

3. 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.

4. 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.

With respect to the overall settlement, PNG states, “this settlement is in the best interests of PNG, its customers and the Joint Petitioners, and therefore is in the public interest and should be approved.” PNG Stmt. in Support at 1. I&E states, “the Parties have carefully discussed and negotiated all issues raised in this proceeding I&E represents that the Settlement maintains the proper balance of the interests of all parties.” I&E Stmt. in Support at 11. The OCA concluded, “[i]t is the OCA’s position that the proposed Settlement is in the public interest.” OCA Stmt. in Support at 1.

For all of the reasons set forth above, the proposed rates under the Stipulation are just and reasonable because the utility is pursuing a least cost fuel procurement policy, consistent with the utility’s obligation to provide safe, adequate and reliable service to its customers. This decision recommends approval of the Stipulation in Settlement of Section 1307(f) Rate Investigation as in the public interest.

CONCLUSIONS OF LAW

1. The Commission has jurisdiction over the parties to and subject matter of this proceeding. 66 Pa.C.S. §§ 1307(f), 1317-18 and 501. et seq.

2. UGI Penn Natural Gas, Inc. has met the requirements of Section 1318 of the Public Utility Code by pursuing a least cost fuel procurement policy, consistent with its obligations to provide safe, adequate and reliable service to their customers. 66 Pa.C.S. § 1318.

5. 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, 2015.

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

7. This Settlement may be executed in counterparts.

3. UGI Penn Natural Gas, Inc.'s rates for purchased gas costs, as the parties have agreed upon in this proceeding, during the relevant time period are just and reasonable and in compliance with 66 Pa.C.S. § 1318.

4. UGI Penn Natural Gas, Inc. has fully and vigorously represented the interests of its ratepayers in proceedings before the Federal Energy Regulatory Commission and other relevant non-PUC proceedings during the relevant time period in compliance with 66 Pa.C.S. § 1318(a)(1).

5. UGI Penn Natural Gas, Inc. has taken all prudent steps necessary to negotiate favorable gas supply contracts and to relieve the utility from terms in existing contracts with their gas suppliers which are or may be adverse to the interests of the utility's ratepayers in compliance with 66 Pa.C.S. § 1318(a)(2).

6. UGI Penn Natural Gas, Inc. has taken all prudent steps necessary to obtain lower cost gas supplies on both short-term and long-term bases both within and outside the Commonwealth, including the use of gas transportation arrangements with pipelines and other distribution companies in compliance with 66 Pa.C.S. § 1318(a)(3).

7. UGI Penn Natural Gas, Inc. has not withheld from the market or caused to be withheld from the market any gas supplies which should have been utilized as part of a least cost fuel procurement policy in compliance with 66 Pa.C.S. § 1318(a)(4).

8. UGI Penn Natural Gas, Inc. has fully and vigorously attempted to obtain less costly gas supplies on both short-term and long-term bases from nonaffiliated interests in compliance with 66 Pa.C.S. § 1318(b)(1).

9. UGI Penn Natural Gas, Inc. has demonstrated that each contract for the purchase of gas from its affiliated interest is consistent with a least cost fuel procurement policy in compliance with 66 Pa.C.S. § 1318(b)(2).

10. Neither UGI Penn Natural Gas, Inc., nor its affiliated interests has withheld from the market any gas supplies which should have been utilized as part of a least cost fuel procurement policy in compliance with 66 Pa.C.S. § 1318(b)(3).

11. The Joint Petition for Settlement is in the public interest.

ORDER

THEREFORE,

IT IS RECOMMENDED:

1. That the Settlement among UGI Penn Natural Gas, Inc., the Pennsylvania Public Utility Commission's Bureau of Investigation and Enforcement, the Office of Consumer Advocate, and the Office of Small Business Advocate in the above-captioned case, filed at Docket Nos. R-2016-2543314, C-2016-2544985 and C-2015-2548847, is approved without modification.

2. That on not less than one day's notice of the final Commission order approving the Settlement, UGI Penn Natural Gas, Inc. shall file tariff supplements implementing rates consistent with the proposed rates contained in Section III of the Settlement, as modified to reflect updates and tariff modifications traditionally performed as part of UGI Penn Natural Gas, Inc.'s December 1st PGC compliance filings, to become effective on and after December 1, 2016.

3. That, upon the filing of the tariff supplements described in Paragraph 2, above, the complaint filed by the Office of Small Business Advocate in these proceedings at Docket No. C-2016-2548847 be marked satisfied and closed.

