

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2016-2543309
Office of Consumer Advocate	:	C-2016-2544958
Office of Small Business Advocate	:	C-2016-2548840
	:	
v.	:	
	:	
UGI Utilities, Inc. – Gas Division 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 rates for recovery of purchased gas costs are \$4.2662 per Mcf for PGC 1 and \$4.0927 per Mcf for PGC 2. The rates proposed by the company were \$4.8003 per Mcf for PGC 1 and \$4.7623 per Mcf for PGC 2. The rates agreed to in the settlement are \$4.8003 per Mcf for PGC 1 and \$4.7623 per Mcf for PGC 2. The company’s current retainage rate, which reflects lost and unaccounted for and company use gas, is 0.5%. 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 UGI filing at R-2016-2543309 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 Utilities Inc. – Gas Division Exhibit No. 1, consisting of that company's Book 1 and Book 2 filings.

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 in this proceeding. 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 UGI's Exhibit No. 1, consisting of UGI'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. UGI 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 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.

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 met 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 UGI 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 UGI 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 UGI purchases part of its gas from affiliated interests, Section 1318(b) requires the Commission to make the following additional three 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 UGI has fully and vigorously represented the interests of its ratepayers in proceedings before the Federal Energy Regulatory Commission.

Section 3 of the Company's pre-filing information contains the Company's response to Commission regulations, 52 Pa.Code § 53.64(c)(4), indicating that UGI 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 UGI by its interstate pipeline suppliers. A listing of FERC proceedings is included in the pre-filing information at Section 3. UGI states:

Since the FERC has jurisdiction over the pipeline transportation and storage services included in UGI's supply portfolio, UGI is an active local distribution company before the FERC in all relevant pipeline regulatory proceedings.

UGI actively monitors many different FERC proceedings or initiatives either individually or through the American Gas Association. UGI 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 UGI by its interstate pipeline suppliers.

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

2. Whether UGI 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 UGI 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.

UGI states, in Section 2 of its pre-filing information:

. . . UGI 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, UGI receives bids from producers and marketers for short-term and long-term purchases. . . . UGI 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.

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

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

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

3. Whether UGI 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.

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

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

UGI'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:

UGI 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, UGI purchased its

supplies, including those utilized for storage injection, from producers and marketers. These purchases were delivered via Firm Transportation on ANR, Columbia, Dominion, Texas Eastern and Transco; via direct supply from UGI Energy Services; or via peaking facilities directly connected to UGI's distribution system.

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

(1) Each month, UGI 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. UGI 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.

* * *

(2) UGI continually evaluates the market competitiveness of its term contracts. UGI 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 or TABS-1 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.

UGI'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 UGI's control.

Pre-filing information, Section 2.

The information submitted by UGI adequately addresses and satisfies the statutory requirements.

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.

UGI'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.

UGI's evidence in support of this finding is set forth in Sections 1, 2 and 5 of the pre-filing information. UGI'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 UGI adequately addresses and satisfies the statutory requirements.

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 UGI's supply arrangements with its affiliated suppliers to determine whether they satisfy UGI'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 UGI's contractual relationships with its affiliates are consistent with the standards set forth in 66 Pa.C.S. § 1318(b)(2). The information submitted by UGI adequately addresses and satisfies the statutory requirements.

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.

UGI's evidence in support of this finding is set forth in Section 5 of the pre-filing information. There is no evidence or information provided that indicates that UGI 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 UGI. The information submitted by UGI adequately addresses and satisfies the statutory requirements.

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. I&E recommended that the Company use an actual three-month remaining life to calculate the C-Factor for the final quarter. I&E's recommendation was made to address its 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 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.

UGI 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. I&E did not contradict UGI's argument that calculating the September 1st PGC reconciliation would increase volatility, but argued that this volatility would be capped by the Company's quarterly rate adjustment cap of 25 percent.

After extensive negotiation between the parties, UGI and I&E came to a compromise position whereby UGI 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.

UGI states that the 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. UGI 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 8.

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

ANR Capacity Release Credit to PGC

In its Book 2 filing, UGI reported that it had modified two Columbia firm transportation contracts to change the primary receipt points from Lebanon, Ohio to Leach, Kentucky. 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. Due to abundant Marcellus supplies, UGI explained that it currently does not utilize the ANR capacity from the Gulf Coast, would not renew its four ANR contracts in 2019 and 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. Because Columbia would only guarantee capacity at Leach by November 1, 2017, UGI 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.

I&E recommended that UGI 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 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. In response, UGI 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 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.

I&E ultimately withdrew its recommendation citing the Company's clarification in informal discussions that released capacity would still be available for use by PGC customers in emergency cases and in case Gulf gas became cheaper than Marcellus shale gas. The Settlement adopts UGI's position and permits UGI to apply the revenue sharing mechanism to ANR capacity release revenues. I&E accepted UGI's contention that the ANR capacity would not be stranded but, rather, would still be available to UGI customers as a last resort or in case of an unforeseen catastrophe. I&E stated that it 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. I&E Stmt. in Support at 9.

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

UGIES Peaking Contract Payment Schedule

In its Book 2, Schedule B, UGI lists eight peaking service contracts the Company has entered into with UGI Energy Services, LLC (“UGIES”) that allow UGI 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. 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 UGI 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.

UGI 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 a 8% interest rate that will be collected from the ratepayers via the E-Factor.² Because the PGC rate is based on a twelve-month period, no mismatch of revenues in any one particular month impacts the E-Factor. 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.

I&E ultimately agreed with UGI’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. In accepting UGI’s position, I&E recommends that, as peaking service contracts expire, UGI should evaluate actual

¹ The peaking service contracts with UGIES are identified as UGIES Peak SVC I through UGIES 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.

historic costs and revenues and specify a payment schedule in its Request for Proposals that is best designed to match ratepayer revenues to gas costs. I&E Stmt. in Support at 12-13.

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

Pipeline Comparison Analysis

In accordance with the settlement of the UGI 2015 PGC Proceeding at Docket No R-2015-2480950, UGI 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. I&E recommended that UGI 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. During negotiations between the parties, it was clarified that I&E was specifically requesting an update on the Texas Eastern Marcellus to Market project. UGI agreed to provide an update in its 2017 PGC filing on the Texas Eastern Marcellus to Market project.

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. I&E states that this Settlement term is consistent with prior Commission decisions and provided guidance and stability to UGI, which are consistent with protecting the public interest.

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

Peaking Service and Asset Management Agreement RFP Results

In its Book 2 filing, UGI identified that UGI'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 1,707 dth per day for Winter 2017-2018 and another 2,316 dth per day through Winter 2020-2021. UGI proposed to meet this shortfall through peaking services contract and issued a Request for Proposal for this peaking service contract.

Also in its Book 2 filing UGI 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. OCA recommended that UGI 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.

During settlement negotiations, the Parties discussed the award of the peaking service contracts and asset management contracts. UGI 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 also 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 was able to receive more value than awarding all of the fields to one supplier.

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. Following extensive negotiations, the Parties have agreed that UGI shall be permitted to award the peaking and Asset Management contracts as proposed. The OCA stated, “. . . 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.” 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.³

³ 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.

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.

With respect to the overall settlement, UGI states, “this settlement is in the best interests of UGI, 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 15. 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 Utilities, Inc. – Gas Division 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.

3. UGI Utilities, Inc. – Gas Division’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 Utilities, Inc. – Gas Division 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 Utilities, Inc. – Gas Division 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 Utilities, Inc. – Gas Division 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 Utilities, Inc. – Gas Division 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 Utilities, Inc. – Gas Division 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 Utilities, Inc. – Gas Division 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 Utilities, Inc. – Gas Division 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 Utilities, Inc. – Gas Division, 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-2016-2543309, C-2016-2544958 and C-2016-2548840, is approved without modification.

2. That on not less than one day’s notice of the final Commission order approving the Settlement, UGI Utilities, Inc. – Gas Division 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 Utilities, Inc. – Gas Division '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-2016-2548840 be marked satisfied and closed.

4. That, upon the filing of the tariff supplements described in Paragraph 2, above, the complaint filed by the Office of Consumer Advocate in these proceedings at Docket No. C-2016-2544958 be marked satisfied and closed.

5. That upon acceptance and approval by the Commission of the tariff supplement and supporting data filed by UGI Utilities, Inc. – Gas Division, as being consistent

