

CAPTION SHEET

CASE MANAGEMENT SYSTEM

1. REPORT DATE: 00/00/00	:	
2. BUREAU: ALJ	:	
3. SECTION(S):	:	
5. APPROVED BY:	:	4. PUBLIC MEETING DATE:
DIRECTOR:	:	00/00/00
SUPERVISOR:	:	
6. PERSON IN CHARGE:	:	7. DATE FILED: 11/02/06
8. DOCKET NO: C-20067047	:	9. EFFECTIVE DATE: 00/00/00

PARTY/COMPLAINANT: FARMER'S PRIDE, INC.

RESPONDENT/APPLICANT: UGI UTILITIES, INC.

COMP/APP COUNTY:

UTILITY CODE: 123100

ALLEGATION OR SUBJECT

COMPLAINANT STATES FARMER'S PRIDE SEEKS THE COMMISSION'S INVESTIGATION INTO THE APPLICATION OF UGI'S GAS TARIFF, RATE IL, INTERRUPTIBLE SERVICE - SMALL VOLUEM, ISSUED 8/14/00 ("RATE IS-SMALL"). FARMER'S PRIDE CONTENTS THAT THE APPLICATION OF THIS RATE IS NEITHER JUST NOR REASONABLE, & IS DISCRIMINATORY.

DOCUMENT
FOLDER

DOCKETED
NOV 07 2006

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Denver
Los Angeles
New York

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ORIGINAL

November 2, 2006

RECEIVED

NOV 02 2006

PENNSYLVANIA PUBLIC UTILITY COMMISSION

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

C-20067047

Re: Farmer's Pride, Inc. -- Formal Complaint Against UGI Utilities, Inc.

Dear Secretary McNulty:

Enclosed for filing, please find the original and three copies of a Formal Complaint of Farmer's Pride, Inc. against UGI Utilities - Gas Division.

Please contact me if you have any questions concerning this filing.

Very truly yours,

Marybeth Christiansen / SG

Marybeth Christiansen

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ORIGINAL

COMMONWEALTH OF PENNSYLVANIA
BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

C-20067047

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PENNSYLVANIA PUBLIC UTILITY COMMISSION

FARMERS PRIDE, INC.)
)
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Complainant,)
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v.)
)
UGI UTILITIES, INC.,)
)
Respondent.)
_____)

MCKENNA LONG & ALDRIDGE LLP
Marybeth Christiansen
28 South Waterloo Drive
Suite 101
Devon, PA 19333
Tel: (610) 687-9750
Fax: (610) 687-9755

Attorney for Complainant

FORMAL COMPLAINT

Farmer's Pride, Inc. ("Farmer's Pride") hereby files this Formal Complaint against UGI Utilities, Inc. ("UGI").

I. IDENTIFICATION OF THE PARTIES

A. Complainant

1. Farmer's Pride, Inc
P.O. Box 39 - 154 West Main St.
Fredericksburg, PA 17026
2. UGI Account No. 214 952 3497 06

RECEIVED
JUN 25 2006

B. Respondent

1. UGI Utilities, Inc. - Gas Division
100 Kachel Blvd, Suite 400
Reading, PA 19612

PAID TO THE COMMISSION
JUN 25 2006

II. NATURE OF COMPLAINT AND STATEMENT OF FACTS

A. Nature of Complaint

Farmer's Pride seeks the Commission's investigation into the application of UGI's Gas Tariff, Rate IL, Interruptible Service - Small Volume, issued August 14, 2000 ("Rate IS-Small"). Farmer's Pride contends that the application of this rate is neither just nor reasonable, and is discriminatory. Accordingly, the Commission has the authority to lower the rate as it applies to Farmer's Pride as well as place parameters around its general application.

Rate IS-Small is a negotiable rate that permits UGI to provide interruptible natural gas delivery service to smaller customers who have the installed capacity to consume an alternative fuel. The rate was designed and intended to permit UGI to retain smaller, alternative fuel capable customers, and to maximize its system throughput by allowing UGI to "flex" its rates downward so that its delivery service rates could meet competitive fuel prices. Thus, the tariff allows UGI to "negotiate" both the customer charge and the commodity charge "based upon the alternative fuels that the Customer has the economic capability of consuming, inclusive of business factors."

Since the tragic events of September 11, 2001, the price of crude oil has climbed from less than \$25 per bbl to over \$80 per bbl and now hovers between \$65 and \$58 per bbl. The price of crude oil, traded on the world market, to a very large extent reflects world events and political instability. This is known to traders as the "political risk premium" and it accounts for 25% to 50% of the price of crude oil. Crude oil products, particularly No. 2 fuel oil, reflect this premium and have also climbed to historically high levels. Wholesale or NYMEX fuel oil prices range from highs of \$2.25 per gallon to current ranges of \$1.65. In the last several months, there has been approximately a \$4.00 to \$7.00 per MMBtu differential between the price of No. 2 fuel oil delivered to a customer such as Farmer's Pride compared to the price of natural gas delivered to the UGI gas distribution system.

Thus, with limited exceptions since September 11, 2001, the high premium on the price of No. 2 fuel oil has borne little relationship to supply and demand within the United States, and during much of this period has not been an economically viable alternative to natural gas. This represents a fundamental change in the relationship between fuels. In contrast to crude oil, natural gas is traded principally on a domestic market and its pricing bears little relationship, if any, to the world price of crude oil. As a result, natural gas prices, due principally to large inventories and the lack of summer hurricanes, have fallen to one-year lows.

The current disparity between fuel oil and natural gas prices enables UGI Utilities to reverse the intent and purpose of Rate IS-Small. Instead of a flexible rate that was designed by UGI to retain customers and maximize system throughput and revenue, UGI has turned the concept on its head and now uses Rate IS-Small to charge customers, such as Farmer's Pride, as high a price as it can get away with -- all the way to the very edge, or possibly in excess of its LFD Rate.

In point of fact, there are no "negotiations" between the parties as required under the tariff. There are no equalities in bargaining power between the utility and its smaller delivery service customers. Consequently, there are no genuine discussions between UGI and its customer. There is no sharing of information used to by UGI to derive its offered rates. It appears that UGI uses the most disadvantageous analysis to a customer and only adjusts that analysis if challenged by a particularly knowledgeable customer. In addition, it appears that UGI gives no recognition or credit for the cost of maintaining an alternative fuel system and for the necessary inventory of the alternative fuel that must be both maintained and be utilized in the event of an interruption. In short, customers are simply presented with their rates and told to "take it or leave it" -- there are no negotiations.

Under Rate IS-Small rate, UGI can use the "negotiable" terms to exact commodity and customer charges up to charges for firm service -- in the case of Farmer's Pride, the Large Firm Delivery Service (LFD) rate. However, these rates are so dissimilar that they are discriminatory. As its name implies, the LFD rate is for firm delivery service. It requires a three year commitment and contains significantly different features and options. For example, the rate permits UGI to assign its firm upstream pipeline capacity, if available, to the customer. The LFD rate is also a block rate so that usage in the higher blocks can be significantly lower than the \$2.25 rate imposed by UGI under the IS-Small rate.

By contrast, the IS-Small rate requires an alternative fuel back-up system for the customer's entire load and is a fully interruptible rate. A customer on this rate is subject to unlimited interruption. During such interruptible periods, usually in the event of very cold weather, the customer would be required to either use its alternative fuel -- at very high prices or to curtail its operations. Further, as a fully interruptible rate, UGI has excluded such customers

from its peak day system design -- a substantial benefit to UGI and to firm ratepayers. UGI is thus free to take such customers off its system to the benefit of its firm customer classes.

The IS-Small rate states that:

... service is available only to Customer loads with documented installed capacity to consume an alternative fuel.

Service under this Rate is interruptible (emphasis provided) and will be provided only when in the opinion of the Company there are sufficient facilities and gas supply. Service under this Rate will be interrupted during period of peak demand. (emphasis provided) The Company maintains sole discretion to determine the appropriate allocation of gas to Customers.

Regardless of flowing gas supply status, Customer may be interrupted as a result of Company system physical constraints.

Thus, there are significant and material differences in the level of service between the LFD rate and the IS-Small rate -- especially the fact that the IS-Small rate is fully interruptible, and as such, the customer can be interrupted at any time during periods of peak demand. Further, to qualify for the IS-Small rate, UGI may require Customers to fund the cost of a natural gas connection to the facility or alternatively UGI can take its capital costs into account when determining its initial charges. In addition, alternative fuel capacity requires annual operation and maintenance costs as well as maintaining some alternative fuel inventory. Therefore, because UGI fails to adequately discount Rate IS-Small, it is inherently discriminatory and unjust for UGI to be permitted to charge customers up to (or possibly greater than) the LFD rate for a distinctly inferior level of delivery service.

To permit UGI to use the unfortunate events associated with September 11, 2001 and the resulting precipitous rise in world oil prices sustained by current political risk factors is patently unjust and unreasonable. The relationship between natural gas and fuel oil is so disparate as to

no longer be a just and reasonable measure of alternatives -- the purpose of the tariff has been frustrated. UGI has turned the original purposes of Rate IS-Small on its head only to reap unfair and windfall profits resulting from factors wholly unrelated to either its cost of service or its level of service. Under any circumstances, UGI should not be permitted to charge a rate wholly unrelated to its cost of service.

B. Statement of Facts

Farmer's Pride, founded in the mid-1890's, operates a chicken processing plant in Fredericksburg. Prior to 1997, Farmer's Pride did not consume natural gas at all. Instead, Farmer's Pride used No. 2 fuel oil in its processing plant. In 1995, UGI extended its distribution system to Fredericksburg. At the time, UGI representatives approached Farmer's Pride and proposed building a short natural gas service line to its plant if Farmer's Pride would switch from fuel oil to natural gas delivery service. UGI offered Farmer's Pride a \$.55 per Mcf delivery service offer under Rate IS-Small. Convinced by UGI that its natural gas delivery costs would remain low (and competitive at the time with fuel oil), Farmer's Pride upgraded its burner train to add a natural gas component and signed a Rate IS-Small service agreement for a three year period.

Upon the expiration of the initial three-year service agreement, UGI and Farmer's Pride entered into a successive series of one year agreements. In 2001, the \$.55 initial rate was increased to \$.85. For the next several years, the rate fluctuated between \$.50 and \$.80, but in 2004, the rate increased from \$.50 to \$1.10 and remained there until September 2006. Thus, from the 1997 rate of \$.55 to the present offer of \$2.25, UGI's interruptible delivery service rate has increased by 309%. According to Bureau of Labor statistics, for this same period, the Consumer Price Index increased by a accumulative 22%.

In September 2006, UGI representatives told Farmer's Pride that effective October 1, 2006 its new Rate IS-Small delivery price would be \$1.90 – an \$.80 or 72% increase in Rate IS-Small delivery charges. This rate was apparently based upon UGI's internal analysis of the differential between No. 2 fuel oil and the price of natural gas. As far as Farmer's Pride knows, no other factors were taken into account. UGI shared no cost information with Farmer's Pride. Most significantly, the proposed rate apparently failed to take into account that Farmer's Pride has increased its consumption and that the facility's usage has steadily increased from the initial annual usage of 33,000 per Mcf and now approaches 65,000 Mcf per year, virtually a 100% increase in consumption and thus revenue to UGI.

After Farmer's Pride received the \$1.90 rate proposal from UGI, and believing such rate was neither just nor reasonable, Farmer's Pride drafted a formal complaint. Believing that it has a good faith duty to share its concerns with UGI, Farmer's Pride sent a draft copy of the complaint to UGI to promote a discussion between the parties.

UGI, however, refused to engage in any discussion with Farmer's Pride, and instead, without explanation or negotiation, in mid-October, raised the rate from \$1.90 to \$2.25. In response, Farmer's Pride sent UGI information showing that the relationship between natural gas and fuel oil had, in fact, declined not increased during September and October 2006. UGI, however, refused to acknowledge this information nor did it enter into any "negotiations." Instead, UGI simply reiterated that the one-year rate would now be \$2.25 -- "take it or leave it or enter into a one-month rate of \$4.45."

Simultaneously as it was increasing the proposed rate, UGI informed Farmer's Pride that it had conducted an inspection of Farmer's Pride's facilities and determined that certain roof top heaters were not alternative fuel oil capable. UGI stated that it would require a new and separate

meter for firm natural gas service and that it would remove that portion of the non-fuel oil capable consumption from the IS-Small rate.

A 105% increase in rates cannot be justified alone by the increase in fuel oil prices during the last 12 months. Farmer's Pride's analysis of fuel oil prices shows that fuel oil prices may have actually decreased in the last year. Thus, on its face, it is unjust and unreasonable to increase Farmer's Pride rate by such an appalling amount. It is similarly unjust to increase an interruptible gas delivery service rate based upon either the commodity price of gas or oil -- without a reasonable nexus to the cost of providing interruptible delivery service.

III. THE COMMISSION HAS THE AUTHORITY TO LOWER THE RATE

Even if UGI's application of the IS-Small rate tariff does not, *per se*, violate the precise language of the tariff, the Commission has the authority to examine the rate on two distinct grounds: (1) the rate must be just and reasonable, and (2) the rate may not be unlawfully discriminatory.

A. UGI's Proposed IS-Small Rate Increase in Unjust and Unreasonable

Pursuant to § 1301 of the Public Utilities Code, "E[e]very rate made, demanded, or received by any public utility, or by any two or more public utilities jointly, shall be just and reasonable, and in conformity with regulations or orders of the commission." Farmer's Pride contends that taking advantage of the increase in world oil prices to unilaterally raise natural gas delivery service rates to virtually the same level as firm rates without a comparable level of desired service is both unjust and unreasonable. Farmer's Pride further contends that the reasonableness standard requires that there be a demonstrated nexus between UGI's cost of interruptible service and the rate charged and that UGI should take into account the initial costs

allocated to the customer of constructing a natural gas connection to the facility along with annual operation and maintenance costs as well as the inventory cost of the alternative fuel.

In addition, UGI's \$2.25 Rate IS-Small charge (a 105% increase) to Farmer's Pride constitutes an excessive rate and accordingly presents UGI with a significant increase in revenue. Again, without a demonstrated relationship between the actual cost of providing interruptible transportation service to Farmer's Pride, UGI will receive revenue well in excess of what would be a fair return. Such rates may therefore be lowered. Pennsylvania Petroleum Ass'n v. Pennsylvania Power & Light Co., 412 A.2d 522 (March 20, 1980).

Finally, the application the IS-Small rate constitutes a significant windfall to UGI. As such, it penalizes Farmer's Pride at the expense of UGI. Generally, the requirement that utility rates be just and reasonable mandates that proposed rates do not unreasonably benefit utility's investors at expense of utility's ratepayers. Popowsky v. Pennsylvania Public Utility Com'n, 669 A.2d 1029 (December 22, 1995).

B. UGI's Proposed IS-Small Rate Increase is Discriminatory

§ 1304 of the Public Utilities Code states that:

No public utility shall, as to rates, make or grant any unreasonable preference or advantage to any person, corporation, or subject any person, corporation, or municipal corporation to any unreasonable prejudice or disadvantage. No public utility shall establish or maintain any unreasonable difference as to rates, either as between localities or as between classes or service.

Here, the unreasonable difference lies in imposing a "negotiated" rate that is virtually the same, if not higher than, the LFD rate, but without the firm service and benefits inherent in firm service. As stated above, Rate IS-Small, a one-year rate, is fully interruptible and requires installed alternative fuel capacity while the LFD rate requires a three year commitment, and provides firm service. UGI's industrial and commercial customer representative stated in

October to Farmer's Pride that the LFD rate for Farmer's Pride would be approximately \$2.25. This is precisely the same rate UGI now offers Farmer's Pride for Rate IS-Small. Farmer's Pride contends that the difference in levels of service between this two rates is so significant that to offer Farmer's Pride \$2.25 for the level of fully interruptible service constitutes an unreasonable difference as to the two rates and thus is discriminatory. And even if the LFD rate is marginally higher, Rate IS-Small has not been sufficiently or reasonably discounted to reflect were inherent differences between fully interruptible and firm delivery service.

It is well established in Pennsylvania that "it is the public services commission's duty to see that gas rates are not only fair and just, but equal and without discrimination." Henshaw v. Fayette County Gas. Co., 161 A. 896 (July 14, 1932).

Thus, the Commission has the statutory authority to review the application of the IS-Small rate to determine, at the very least: (1) whether such rate is just, reasonable and fair; (2) whether the rate proposed by UGI to Farmer's Pride is excessive; (3) whether the application of the rate would result in an unfair return to UGI; (4) whether the application of the rate would result in an unreasonable benefit to UGI's investors; or (5) whether the application of such rate would unfairly penalize Farmer's Pride.

IV. UGI'S NEGOTIATED IS-SMALL RATE MUST BE REASONABLY RELATED TO ITS COST OF SERVICE

When setting rates, Section 1301 of the Public Utility Code, 66 Pa.C.S. § 1301, provides that "[e]very rate made, demanded, or received by any public utility, or by any two or more public utilities jointly, shall be just and reasonable, and in conformity with regulations or orders of the commission." The rate made is determined by two factors – what increase in revenues over those produced by existing rates is needed to give the utility a fair rate of return and what

increased revenues are going to be allocated in the rates among the various rate classes, i.e., the rate structure. Rate classes are established by taking similarly situated customers with similar characteristics as to the type of service and the type and demand of service and rates that are designed to recover the cost of serving that class. When a utility files for a rate increase, it must file a cost-of-service study assigning to each customer class a rate based upon operating costs that it incurred in providing that service. 52 Pa.Code § 53.53. In sum, the rates must bear a relationship to utility costs; a principle that the Commission clearly recognizes. *Id. See also, Lloyd v. Pennsylvania Public Utility Commission*, 904 A 2d, 1010, (Argued May 2006).

Farmer's Pride contends that, as a regulated utility, UGI's Rate IS-Small must be reasonably related to UGI's cost of service. Certainly, it is a well-established principal of public utility law that rates, even negotiated rates, have some basis in cost of service. To permit UGI to charge the absolute maximum rate under a so-called negotiable rate flies in the face of cost-based ratemaking.

V. A 105% INCREASE IN RATES IN ONE YEAR VIOLATES THE CONCEPT OF GRADUALISM

The Commission has approved, in certain circumstances, the use of gradualism by utilities to prevent rate shock. See, Sharon Steel Corporation v. Pennsylvania Public Utility Commission. Although generally employed by utilities to soften rates, Farmer's Pride asserts that this principal should be applied in this case to prevent UGI from imposing upon a customer a 105% increase in rates in one year. Based upon the Commission's inherent authority to approve gradual rates and its corresponding interest in preventing rate shocks, the Commission should, as an alternative remedy, order UGI, to phrase in such increase in rates over a reasonable period of time, such as three years.

VI. UGI HAS ENGAGED IN RETALIATORY PRACTICES FOR DRAFTING THIS COMPLAINT

As set forth in the facts above, Farmer's Pride sent UGI a draft copy of this complaint for the express purpose of engaging in a discussion concerning Farmer's Pride's concerns over the fairness in the rise in rates from \$1.10 to \$1.90. Farmer's Pride expressly asked that UGI respond to the concerns and issues raised in its draft complaint. Despite such requests, UGI refused to respond or to engage in any discussion related to the complaint. Instead, without "negotiation" and without explanation, UGI raised the rate again, just one month later, from \$1.90 to \$2.25. Farmer's Pride does not believe that such actions can possibly be justified by changes in natural gas and fuel oil prices in this one month period. Farmer's Pride own analysis that it sent to UGI showed that the differential between fuel oil and natural gas was as much as \$2.00 higher in September than it was in October. Thus, Farmer's Pride believes that the evidence will show that the relationship between fuel oil prices and natural gas prices, in fact, narrowed during this period.

In addition, it appears that during October 2006, UGI conducted a surreptitious inspection of Farmer's Pride facilities in Fredericksburg upon which it found several heaters at the plant which allegedly are not dual fuel capable. UGI then demanded that Farmer's Pride install a second meter for firm deliveries of natural gas and made its interruptible service contingent on providing a yet to be determined firm service rate with respect to the gas not subject to alternative fuel capacity.

There can be no other explanation for increasing the rate from \$1.90 to \$2.25 or for the sudden inspection of Farmer's Pride's facilities than the drafting of this complaint. This constitutes pure retaliation on UGI's part. If true, it is wholly contrary to the Commission's

policy of encouraging customers to file complaints if they think they have been harmed. It has a chilling effect on the statutory right to complain. Further, UGI actions are contrary to the principle of attempting to discuss rate concerns and settle issues with utilities. Farmer's Pride believes that such actions, if true, are so egregious and so against public policy that they alone constitute unclean hands giving rise to equitable estoppel. Thus, relying upon its inherent authority to prohibit unjust rates, UGI should be estopped by the Commission from raising its rates from the 2005-2006 levels. Further, as permitted in the Rate IS-Small tariff, UGI should be ordered to provide interruptible service for that portion of Farmer's Pride's usage that apparently does not have alternative fuel service, provided that Farmer's Pride certifies that it has firm natural gas transportation to the UGI citygate.

VII. REQUEST FOR RELIEF

A. Request for Rate Freeze

Farmer's Pride hereby requests that the Commission order UGI to freeze its rate at the \$1.10 level for IS-Small service pending the resolution of this Complaint. To permit UGI to impose a 105% increase in rates to \$2.25 while this Complaint is pending would impose an undue hardship on Farmer's Pride.

In addition, given the alleged retaliatory action taken by UGI against Farmer's Pride for filing this Complaint, Farmer's Pride also requests that UGI provide all service at the IS-Small rate pending resolution of the Complaint.

B. Request that the Commission Investigate UGI Practices

Farmer's Pride requests that the Commission investigate UGI's practices relating to this Complaint, including but not limited to, whether UGI engaged in retaliation against Farmer's

Pride for filing this Complaint, whether UGI raised rates at or near the levels of the firm LFD rate, whether UGI inspected Farmer's Pride's facilities principally because Farmer's Pride sent UGI a draft complaint, and whether UGI took other punitive actions that singled out Farmer's Pride or its counsel. Further, Farmer's Pride requests that the Commission investigate whether UGI consistently applies the same analysis, and standards to all customers and whether UGI regularly inspects its customers alternative fuel facilities and whether UGI requires that all interruptible customers be 100% alternative fuel capable. Finally, Farmer's Pride asks that the Commission examine the reasonableness of requiring that interruptible customers have installed alternative fuel capacity in light of the fact that natural gas can be firmly transported to the UGI citygate in the exact same manner as UGI's transports firm gas for its firm service customers.

C. Request that the Commission Lower the IS-Small Rate

Farmer's Pride requests that the Commission lower the Rate IS-Small charges to Farmer's Pride consistent with: (a) the original intent of the rate; (b) UGI's actual cost of providing interruptible natural gas delivery service; (c) the interruptible level of service provided versus firm service; (d) the disparity between world oil prices and domestic natural gas prices; (e) the inherent unfairness of using oil price increases to determine rates in the aftermath of September 11, 2001; (g) ratepayers' historic costs of installing alternative fuel capability and current costs of operation, maintenance, and inventory; and (h) to reflect UGI's unclean hands and discrimination against Farmer's Pride.

D. Request for the Commission to Investigate UGI's application of the IS-Small Rate

Farmer's Pride requests that the Commission examine the original Rate IS-Small proceeding to determine the stated intent of the rate, investigate the recent application of Rate

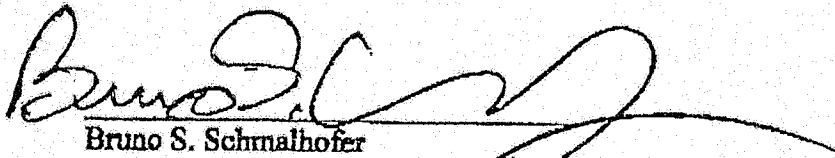
IS-Small to other ratepayers to ascertain whether UGI has received an unreasonable revenue; and examine the basis by which other ratepayers have been offered similar rates.

E. Request for Other Just and Reasonable Rate Relief

Farmer's Pride requests that the Commission further order any rate relief or remedy that is just and reasonable with respect to this Complaint.

VERIFICATION

I, Bruno S. Schmalhofer, the Treasurer of Farmers Pride, Inc., and an authorized representative thereof, hereby state that the facts set forth above in this Complaint are true and correct to the best of my knowledge, recollection, information, and belief and I expect to be able to offer proof of such facts at a hearing held in this matter. I understand the statements herein are subject to the penalties of 18 Pa. C.S. §4904.



Bruno S. Schmalhofer

Dated this 2nd day of November 2006



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE

DATE SERVED: NOVEMBER 7, 2006

C-20067047

UGI CORPORATION
PO BOX 13009
READING PA 19612-3009

DOCUMENT
FOLDER

Dear Sir/Madam:

A complaint has been filed against you before the Pennsylvania Public Utility Commission by FARMER'S PRIDE, INC.. To defend yourself against the claims stated in the following pages, you must act within twenty (20) days by filing in writing with the Commission, either, personally or through your attorney, your defenses or objections to the claims stated against you. Or, you may satisfy the complaint by settling the matter with the Complainant and submitting proof of settlement to the Commission within twenty (20) days.

IF YOU FAIL TO RESPOND WITHIN TWENTY (20) DAYS, THE CASE MAY GO FORWARD IN YOUR ABSENCE AND A JUDGEMENT MAY BE ENTERED AGAINST YOU BY THE COMMISSION WITHOUT FURTHER NOTICE.

CUSTOMER OF A UTILITY

A payment schedule may be prescribed or a termination of utility services may be authorized. You may lose money or property or other rights important to you.

COMPANY/UTILITY

An Administrative Law Judge may revoke or suspend any certificate or permit held by you, or impose a fine, or any other appropriate penalty or remedy authorized by the Public Utility Code. You may lose money or property or other rights important to you.

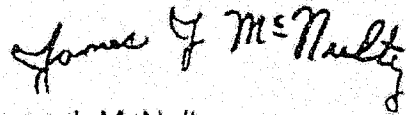
Detailed instructions on how to proceed are contained in the attached pages. You are advised to read them carefully.

NOVEMBER 7, 2006

Unless you are a corporation or other organization, you may proceed without a lawyer. However, if you want a lawyer and do not have one or cannot afford one, the office listed below can tell you where you can get legal help:

Pennsylvania Lawyer Referral Service
Pennsylvania Bar Association
P.O. Box 186
Harrisburg, PA 17108
(800) 692-7375

Very truly yours,

A handwritten signature in cursive script that reads "James J. McNulty". The signature is written in dark ink and is positioned above the typed name and title.

James J. McNulty
Secretary

jih

BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

DATE SERVED: NOVEMBER 7, 2006

FARMER'S PRIDE, INC.
Complainant

v.

UGI CORPORATION
Respondent

Complaint Docket
No: C-20067047

DOCUMENT
FOLDER

DOCKETED
NOV 07 2006

FORMAL COMPLAINT NOTICE TO RESPONDENT TO ANSWER OR SATISFY

TO: UGI CORPORATION

TAKE NOTICE:

That a complaint in the above entitled matter, of which the attached is a true and correct copy, has been presented and filed of record with the Pennsylvania Public Utility Commission. Section 702 of the Public Utility Code, 66 Pa. C.S. Section 702, requires the Commission to serve on each party named in a complaint a copy of the complaint and notice calling upon each party to satisfy the complaint, or to answer the same in writing within a specified time; THEREFORE,

1. You have twenty (20) days from the date on which this complaint is served to either satisfy this complaint or to file with the **Secretary of the Pennsylvania Public Utility Commission, P. O. Box 3265, Harrisburg, PA 17105-3265**, an answer (original and three copies), in writing, under oath, which, as required by Section 5.61 of the Commission's Rules of Practice and Procedure, 52 Pa. Code Section 5.61, either affirms or specifically denies the allegations in this complaint. You must also serve a copy of the answer upon the complainant. The date of service is the mailing date as indicated by the date at the top of this Notice. Section 1.56(a) of the Commission's Rules of Practice and Procedure, 52 Pa. Code Section 1.56(a).

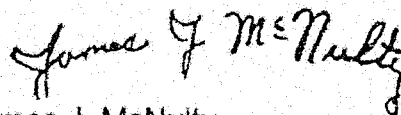
2. If you fail to either satisfy this complaint or to file answer or other responsive pleading within twenty (20) days, you will be deemed to have admitted all the allegations in this complaint in accordance with Section 5.61 of the Commission's Rules of Administrative Practice and Procedure, 52 Pa. Code Section 5.61. In that event, the Commission may, without hearing, enter an order which either revokes or suspends any certificate or permit held by you or which imposes a fine or any other appropriate penalty or remedy authorized by the Public Utility Code, 66 Pa. C.S. Section 101, et seq.; and, if

you are a customer of a utility, an order may be entered which prescribes a payment schedule or which authorizes termination of utility services. The Commission is not limited to the relief sought by the complainant in paragraph 4 of the attached complaint.

3. If you elect to satisfy this complaint you must file, within twenty (20) days from the date on which this complaint is served, affidavits executed by each complainant that this complaint has been satisfied. Such affidavits must describe the basis on which this complaint was satisfied; any settlement agreement between the parties must be reduced to writing and attached to the affidavit. Such affidavits are to be filed with the Secretary of the Commission at the address set forth in paragraph 1. Upon receipt of affidavits of satisfaction from all complainants, this complaint may be dismissed by the Commission in accordance with Section 703(a) of the Public Utility Code, 66 Pa. C.S. Section 703(a), unless the Commission determines that such dismissal would be contrary to the public interest, in which event the Commission may direct that hearings be held upon the complaint.

4. If you file an answer which admits the allegations in this complaint, or which fails to specifically deny the allegations in this complaint, the Commission may, without hearing, enter an order which either revokes or suspends any certificate held by you or which imposes a fine or any other appropriate penalty or remedy authorized by the Public Utility Code, 66 Pa. C. S. Section 101, et seq.; and, if you are a customer of a utility, an order may be entered which prescribes a payment schedule or which authorizes termination of utility services. The Commission is not limited to the relief sought by the complainant in paragraph 4 of the attached complaint.

5. If you file a timely answer which specifically denies the allegations in this complaint, or which raises material questions of law or fact, this matter shall be referred to the Office of Administrative Law Judge for hearing and decision. If, after hearing on the issues raised by that answer, you are found to have committed any of the violations alleged in the complaint, the Administrative Law Judge may render a decision which either revokes or suspends any certificate or permit held by you or which imposes a fine or any other appropriate penalty or remedy authorized by the Public Utility Code, 66 Pa. C. S. Section 101, et seq.; and, if you are a customer of a utility, an order may be entered which prescribes a payment schedule or which authorizes termination of utility services. In the imposition of a penalty after a hearing the Administrative Law Judge is not bound by the relief sought by the complainant in paragraph 4 of the attached complaint.



James J. McNulty
Secretary

(SEAL)

Certified Mail
Return Receipt Requested

McKenna Long
& Aldridge, L.L.P.
Attorneys at Law

Atlanta
Denver
Los Angeles
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MARYBETH CHRISTIANSEN
(610) 687-8631

EMAIL ADDRESS
mchristiansen@mckennalong.com

November 13, 2006

VIA UPS - NEXT DAY AIR

ORIGINAL RECEIVED

Mr. James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

NOV 13 2006

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Re: Farmer's Pride, Inc. - Motion to Appear Pro Hac Vice
Stephen K. Gardner and Alan R. Jenkins

C-20067047

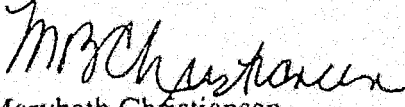
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Dear Secretary McNulty:

Enclosed for filing, please find the original and three copies of the Motion to Appear Pro Hac Vice Stephen K. Gardner and Alan R. Jenkins.

Please contact me if you have any questions concerning the filing.

Very truly yours,


Marybeth Christiansen

MBC/mh

Enclosures

cc: Mark Morrow, Esquire
Stephen Gardner, Esquire
Alan R. Jenkins, Esquire

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COMMONWEALTH OF PENNSYLVANIA
BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

ORIGINAL

FARMER'S PRIDE, INC.)
)
)
Complainant,)
)
v.)
)
UGI UTILITIES, INC.,)
)
Respondent.)
_____)

Docket No. C-20067047

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NOV 18 2006

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

MOTION TO APPEAR PRO HAC VICE

STEPHEN K. GARDNER AND ALAN R. JENKINS

Pursuant to 52 Pa Code § 1.22 (b) and Pa. B. A. R. No. 301, the undersigned attorney who is admitted to practice before the Supreme Court of Pennsylvania and who has entered her appearance in the above-designated matter on behalf of Complainant, Farmer's Pride, Inc., hereby moves for the admission *pro hac vice* of **Stephen K. Gardner, Esquire** and **Alan R. Jenkins, Esquire** also of the firm of McKenna Long & Aldridge to appear and practice before this Commission in the above-captioned matter.

As grounds for this motion:

1. Mr. Gardner is duly licensed and admitted as member of the bar in good standing of the District of Columbia and the State of California.
2. There are no disciplinary proceedings pending against Mr. Gardner as a member of the bar of any jurisdiction.

3. Mr. Gardner has appeared before this Commission on several occasions, and will be familiar with the rules of administrative practice and procedure of this Commission.

4. Mr. Gardner whose admission *pro hac vice* is hereby sought can receive communications connected to the above-captioned matter via the following address and telephone number:

Stephen K. Gardner, Esq.
McKenna Long & Aldridge LLP
1900 K Street, N.W.
Washington, D.C. 2006
(202) 496-7661 (phone)
(202) 496-7757 (facsimile)

5. Mr. Jenkins is duly licensed and admitted as member of the bar in good standing of the District of Columbia, the Commonwealth of Virginia, and the State of Georgia.

6. There are no disciplinary proceedings pending against Mr. Jenkins as a member of the bar of any jurisdiction.

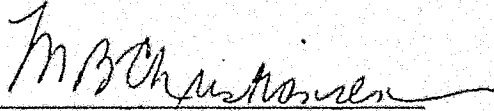
7. Mr. Jenkins has recently appeared before this Commission, and will be familiar with the rules of administrative practice and procedure of this Commission.

8. Mr. Jenkins whose admission *pro hac vice* is hereby sought can receive communications connected to the above-captioned matter via the following address and telephone number:

Alan R. Jenkins, Esq.
McKenna Long & Aldridge LLP
303 Peachtree Street, NE
Suite 5300
Atlanta, GA 30308
(404) 527-4642 (phone)
(404) 527-4198 (facsimile)

Undersigned counsel will continue to act as counsel of record in the above-captioned matter.

Respectfully submitted,



Marybeth S. Christiansen
McKenna, Long & Aldridge, L.L.P.
28 Waterloo Drive, Suite 101
Devon, PA 19333
Tel: (610) 687-9750
Fax: (610) 687-9755

Counsel for Farmer's Pride, Inc.

Pennsylvania Supreme Court
Identification No. 34357

CERTIFICATE OF SERVICE

I, Marybeth Christiansen, Esquire, attorney for Farmer's Pride, Inc., hereby certify that I caused a true and correct copy of the Motion to Appear Pro Hac Vice Stephen K. Gardner and Alan R. Jenkins to be sent via First Class Mail, postage prepaid, on November 13, 2006, on the following:

UGI Utilities, Inc. - Gas Division
100 Kachel Boulevard, Suite 400
Reading, PA 19612

Mark C. Marrow, Esquire
Senior Counsel
UGI - Legal Department
460 North Gulph Road
King of Prussia, PA 19406

MCKENNA LONG & ALDRIDGE LLP

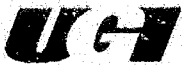
By: Marybeth S. Christiansen

Marybeth S. Christiansen, Esquire

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NOV 13 2006

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU



UTILITIES, INC.

November 27, 2006

UGI Utilities, Inc.
460 North Gulph Road
King of Prussia, PA 19406

Post Office Box 858
Valley Forge, PA 19482-0858

(610) 337-1000 Telephone
(610) 992-3259 Fax

VIA EXPRESS MAIL

ORIGINAL

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

DOCKETED
NOV 28 2006

RECEIVED
NOV 27 2006
PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Re: Farmer's Pride, Inc. v. UGI Utilities, Inc., Docket No.C-20067047

Dear Secretary McNulty:

Enclosed for filing, please find an original and three copies of the Answer of UGI Utilities, Inc. – Gas Division to the formal complaint of Farmer's Pride, Inc. Copies of this document have been served upon the persons indicated on the attached certificate of service.

Should you have any questions concerning this filing, please feel free to contact me.

Very truly yours,

Mark C. Morrow

Counsel for UGI Utilities, Inc. –
Gas Division

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NOV 27 2006
PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

FARMER'S PRIDE, INC.

v.

UGI UTILITIES, INC. -
GAS DIVISION

Docket No. C-20067047

DOCKETED
NOV 28 2006

ANSWER OF
UGI UTILITIES, INC. - GAS DIVISION
TO THE FORMAL COMPLAINT OF
FARMER'S PRIDE, INC.

DOCUMENT
FOLDER

UGI Utilities, Inc. - Gas Division ("UGI"), in accordance with the provisions of 52 Pa. Code §5.61, hereby submits the following answer to the formal complaint of Farmer's Pride, Inc ("Complainant"):

INTRODUCTION

Complainant is served under the delivery service option of UGI's Rate IS – Interruptible Service – Small Volume ("Rate IS-DSO"), a rate schedule that has been in effect on UGI's system since at least the early 1980s. Under this rate, Complainant must have a documented and installed alternate fuel capability that enables it to avoid using natural gas. When this circumstance is present, the Commission, through UGI's Commission-approved interruptible rate schedules, permits UGI to provide a discount from otherwise applicable firm rates to retain load and obtain some contribution towards system costs.

UGI is a regulated natural gas distribution company whose rates are principally established in base rate proceedings. In base rate proceedings, a revenue requirement to enable UGI to invest in and operate its system is determined initially, and rates, reflecting in part

results of cost of service studies, are then designed to recover this amount. In UGI's cost of service studies almost all costs are assigned to firm rate schedules since, as a standard practice, UGI does not design or construct its system to serve interruptible loads where customer demand and revenues are uncertain. However, recognizing the system constructed to serve firm loads may be used by interruptible customers during non-peak periods, the Commission has determined that interruptible customers should contribute towards the cost of that system. The Commission has, in past UGI base rate proceedings, accomplished this by reducing the revenue requirement of UGI by an amount representing potential interruptible sales (thereby lowering firm service rates), and has placed UGI at risk to recover this credit amount.

Complainant made the economic decision to install equipment that can burn natural gas in addition to oil, and has presumably benefited significantly from this decision by receiving annual discounts from the rates it otherwise would have paid if it received service under a firm transportation rate schedule (which under current market conditions is a relatively small portion of its total energy bill), or by not burning apparently higher cost oil supplies. Complainant has also presumably benefited when buying natural gas supplies from its marketer(s) since annual gas costs are lower when gas does not have to be purchased during the coldest weather conditions.

The discounts Complainant has received have reflected the relative spread between the price of gas and oil, and have been provided to encourage the use of natural gas over oil thereby providing some contribution towards system costs. While these discounts may have been greater when the price spread between gas and oil was narrower, Complainant is still receiving a discount from what it would pay for otherwise applicable firm retail service, and potentially will receive greater discounts in the future if the price spread between gas and alternate fuels narrows

once more. Complainant presumably also must also be receiving savings as compared to its cost of burning oil, otherwise Complainant would use oil instead of natural gas.

If the Rate IS-DSO rates Complainant has accepted were not superior to available firm rate schedules or the cost of burning its alternate fuel, Complainant would presumably reject the Rate IS-DSO rates offered by UGI and exercise its available firm rate or fuel oil options. Instead, Complainant's decision to accept the Rate IS-DSO rates proffered by UGI shows that the Rate IS-DSO Rates offered by UGI are better than Complainant's alternatives and that UGI is properly maximizing Complainant's contribution towards the system costs to the benefit of firm service customers within the parameters established by the Commission.

RESPONSE TO SPECIFIC AVERMENTS

I. IDENTIFICATION OF THE PARTIES

A. *Complainant*

It is admitted Complainant is Farmer's Pride, Inc. and that Complainant's UGI Account No. is 214 952 3497 06.

B. *Respondent*

It is admitted that the respondent is UGI.

II. NATURE OF COMPLAINT AND STATEMENT OF FACTS

A. *Nature of complaint*

It is admitted that Complainant is currently served under Rate IS-DSO.

It is denied that Complainant's Rate IS-DSO rates are unreasonable or discriminatory.

It is admitted, as explained in the introduction, that UGI may negotiate rate discounts for Rate IS-DSO customers to retain loads on its system that might be lost to alternate fuels.

It is admitted that UGI's tariff permits UGI to negotiate discounts "based upon the alternative fuels that the Customer has the economic capability of consuming, inclusive of related business factors."

It is admitted that the price of oil and natural gas fluctuate in general and with respect to each other. UGI has no knowledge as to Complainant's claims these fluctuations may relate to the events of September 11, 2001 or "political risk premiums," and accordingly strict proof thereof is demanded. In general, however, the discount UGI is able to negotiate with a Rate IS-DSO customer is more dependent on the spread between gas and alternative fuel prices, and not upon whether oil or gas prices are high or low when compared to some historical period.

It is admitted that recent spreads between oil and natural gas prices has been relatively high by historical standards, thereby enabling UGI to negotiate smaller discounts to retain interruptible loads.

It is denied that UGI's recent ability to negotiate smaller discounts turns the concept of retaining customers and maximizing system throughput "on its head". On the contrary, the provisions of Rate IS-DSO were specifically intended to permit the level of discounts to be adjusted up or down to reflect changes in the relative prices of gas and alternate fuels.

It is denied that Complainant may be paying Rate IS-DSO prices in excess of what its Rate LFD Rate might be or that Rate LFD is the "otherwise applicable maximum charge for retail service" referenced under Rate IS-DSO.

It is denied that there are no "negotiations" in setting rates under Rate IS-DSO or that there are inequalities in bargaining power. The prices of alternate fuels are generally well known, are published in industry publications and are used by UGI in initially proposing Rate IS-DSO prices. If a particular customer has lower alternate fuel costs or other business conditions that might cause it to not use natural gas and is willing to share that information, UGI would naturally

consider this information in order to retain the load on its system. If the customer has no such special circumstance, however, there is no need for UGI to reduce its initial price offer. This reflects the fact that customer has no special circumstances and has nothing to do with disparate bargaining power. Indeed, since potential Rate IS-DSO customers have no obligation to use gas at all, they have the ultimate say as to whether or not they accept Rate IS-DSO rates.

It is denied that that UGI could or would use a "disadvantageous rate analysis" or that customers require any special knowledge. A customer only needs to know the costs of its natural gas supply and alternate fuel in deciding whether or not to voluntarily accept a proposed Rate IS-DSO price.

It is denied that UGI does not consider the costs of maintaining an alternate fuel capability and associated fuel inventories in establishing Rate IS-DSO prices. However, these related business factors are only considered to the extent necessary to calculate a discount sufficient to acquire or maintain a customer's load on natural gas.

It is denied that customers are presented with Rate IS-DSO rates and told there can be no negotiations. If a customer has information that would indicate that gas loads would not be retained unless a proposed Rate IS-DSO were lowered, UGI would have every incentive to review such information in order to attempt to retain system load. If a customer has no such information, then it is the customer's factual circumstances, and not UGI, that determines there is no basis for further rate discounts.

It is denied Complainant is required to accept the terms and conditions of Rate LFD, including the three-year term commitment, to receive firm service, or that Rate LFD is the "otherwise applicable maximum charge for retail service" referenced under Rate IS-DSO. By way of further answer Complainant would, for example, qualify to receive firm service under Rate N (General Service - Non-Residential") without any term commitment.

It is admitted that Rate IS-DSO is an interruptible rate. It is admitted that when service is interrupted a Rate IS-DSO customer may switch to its alternate fuel or curtail its operations. It is denied generally that a Rate IS-DSO customer has to pay "very high prices" for its alternate fuel when it is interrupted. Generally, as explained above, Rate IS-DSO service will be priced so that the cost of gas service is near, but slightly below, the cost that might cause a customer to switch to its alternate fuel considering all related business factors. Moreover, Rate IS-DSO customers can purchase and store alternate fuels in advance of an actual interruption date.

It is admitted that UGI excludes interruptible loads in planning to meet the peak day gas requirements of its firm service customers, but it is denied that this provides "a substantial benefit to UGI and to firm ratepayers" in that the costs of meeting peak day requirements are assigned to firm service customers, and not to interruptible customers.

It is admitted that there are differences between Rate LFD and Rate IS-DSO. It is denied that Rate IS-DSO rates are unduly discriminatory if, under certain conditions, these rates can approach or exceed Rate LFD rates. Indeed, if Complainant believes that Rate LFD service is superior to Rate IS-DSO service, it is free to elect to receive service under Rate LFD if it qualifies for that rate. UGI believes, however, and therefore avers, that Complainant has concluded that service under Rate IS-DSO better meets its needs.

It is denied that because the price spread between oil and natural gas has widened, that Rate IS-DSO rates have become unreasonable or have provided any "windfall."

It is denied that Rate IS-DSO rates are unrelated to cost of service. By way of further answer, firm service rates are determined by the Commission after considering the results of cost of service studies. Rate IS-DSO rates in turn, are capped and can often be significantly less. Stated another way, to the extent the applicable firm service rate represents a fair allocation of system revenue requirements, Rate IS-DSO customers can pay no more than their fairly allocated

share of system revenue requirements, and will generally pay considerably less in light of their ability to use an alternate fuel.

B. Statement of Facts

It is admitted that Complainant operates a chicken processing plant, and was not a UGI customer prior to 1997.

It is admitted that UGI extended its distribution facilities to Fredericksburg, Pennsylvania in the mid-1990s, and offered natural gas service to Complainant.

It is admitted that Complainant made the economic decision to install natural gas service without removing its fuel oil capability, and elected to receive natural gas distribution service under Rate IS-DSO.

It is admitted that rather than receive monthly pricing under Rate IS-DSO, Complainant elected to accept a three-year Rate IS-DSO price of \$.55/Mcf upon the initiation of service under Rate IS-DSO.

It is denied that UGI represented that its natural gas delivery rates under Rate IS-DSO "would remain low."

It is admitted that Complainant elected, upon the expiration of the initial three-year pricing agreement, to continue to receive service under Rate IS-DSO.

It is admitted that rather than receive monthly prices, Complainant elected to receive service under successive one-year pricing agreements at rates that fluctuated based on the relative price spread between oil and gas at the time the pricing agreements were entered into. UGI has no specific knowledge of the movement of the consumer price index during the specified period, but would note that the consumer price index bears no relationship to the relative price spread between oil and gas.

It is admitted that UGI quoted Complainant a one-year Rate IS-DSO price of \$1.90 in September of 2006. By way of further answer, this rate quote was based, in part, on assumptions concerning Complainant's existing oil inventories that UGI subsequently determined were in need of adjustment.

It is admitted generally that UGI did not share "cost information" with Complainant. By way of further answer no such request was received from Complainant nor was Complainant willing to present evidence that it would switch its load to an alternate fuel if a lower price were not offered.

It is denied that any increase in Complainant's usage should be a factor in setting its Rate IS-DSO rate, except to the extent its usage level would affect its costs of switching to an alternate fuel.

It is admitted that Complainant responded by sending a draft formal complaint to UGI. By way of further answer this draft complaint did not contain any information indicating that Complainant would shift its load to oil if a lower Rate IS-DSO price were not offered, and instead contained complaints about the reasonableness of Rate IS-DSO set forth in the current formal complaint.

It is admitted that after UGI's initial one-year price quote had expired, UGI quoted Complainant a one-year Rate IS-DSO rate of \$2.25/Mcf in October of 2006 and informed Complainant that the then current one-month price was \$4.45/Mcf. By way of further answer, this revised price primarily reflected adjustments in certain assumptions concerning Complainant's fuel inventories.

It is admitted that Complainant sent certain information concerning the relationship of oil and gas prices to UGI. By way of further answer this information did not convince UGI that it would have to decrease its latest Rate IS-DSO offer to retain Complainant's load on natural gas.

or that Complainant was willing to share any information pertinent to the question of whether its load would leave the UGI system if a lower price were not offered.

It is denied that UGI was unwilling to negotiate. In fact, Complainant failed to provide information indicating that its load would be served by oil if the Rate IS-DSO offer was not lowered. The reasonableness of UGI's offer was confirmed when Complainant accepted it rather than deciding to use oil.

It is admitted that an inspection of Complainant's facilities was conducted, and that a portion of Complainant's load did not qualify for interruptible service since certain roof heaters and other recently installed equipment did not have a documented installed alternate fuel capability. By way of further answer, such inspections are conducted routinely where, as here, there is a significant increase in gas usage by an interruptible customer. It is admitted Complainant was informed that this portion of its load would have to be separately metered and removed from interruptible service.

It is denied that the increase in Rate IS-DSO rates was not justified by Complainant's alternate fuel economics or was otherwise unreasonable. UGI has no knowledge of an oil price analysis performed by Complainant or its consultants, but generally denies that the price of oil determines Rate IS-DSO prices. Instead such pricing is primarily determined by the relative price spread between oil and gas.

It is denied that there is not a reasonable nexus between the cost of service and Rate IS-DSO rates. As explained above, the otherwise applicable firm rate establishes a reasonable contribution towards system costs based on cost of service principles, and interruptible customers receive a discount from this cost of service-based rate.

III. THE COMMISSION HAS THE AUTHORITY TO LOWER THE RATE

The opening paragraph of Section III of the formal complaint is a conclusion of law to which no response is required.

A. *UGI's Proposed IS-Small Rate Increase is Unjust and Unreasonable.*

The provisions of Section 1301 of the Public Utility Code speak for themselves and no further response is required.

It is denied that UGI has taken advantage of increases in oil prices. Instead UGI's Rate IS-DSO rates are in conformance with the provisions of its tariff and reflect Complainant's alternate fuel economics and related business factors.

It is denied that Rate IS-DSO rates must contain a subsidy to reimburse Complainant for its costs of installing or maintaining an alternate fuel capability or a connection to UGI's distribution system.

It is denied that the Rate IS-DSO rate increase accepted by Complainant is not justified simply because the relative price spread between oil and gas prices has recently increased. If the rate increase were not justified by Complainant's alternate fuel economics, then Complainant would not have accepted the rate and would have instead burned its alternate fuel.

It is denied that charging an authorized tariff rate constitutes a "windfall." It is denied that the rates paid by Complainant unreasonably benefit UGI investors.

B. *UGI's Proposed IS-Small Rate Increase is Discriminatory*

It is denied that UGI's Rate IS-DSO rates are discriminatory.

It is denied that Rate IS-DSO rates are discriminatory if they approach or exceed Rate LFD levels.

The remaining averments of this portion of the formal complaint are conclusions of law to which no response is required. By way of further answer, however, since Complainant is

challenging an established rate previously reviewed and approved by the Commission, it bears the burden of proof.

IV. UGI'S NEGOTIATED IS-SMALL RATE MUST BE REASONABLY RELATED TO ITS COST OF SERVICE

It is denied that Rate IS-DSO rates are not reasonably related to cost of service principles. Rate IS-DSO customers use UGI's distribution system on an interruptible basis and receive a discount from otherwise applicable firm rate schedules that reflect cost of service principles.

The remaining averments of this portion of the formal complaint are conclusions of law to which no response is required

V. A 105% INCREASE IN RATES IN ONE YEAR VIOLATES THE CONCEPT OF GRADUALISM

Rate adjustments within tariff-authorized parameters are not general rate increases to which the concept of rate gradualism would apply.

The remaining averments of this portion of the formal complaint are conclusions of law to which no response is required.

VI. UGI HAS ENGAGED IN RETALIATORY PRACTICES FOR DRAFTING THIS COMPLAINT

As noted above, it is admitted that UGI's Rate IS-DSO price quote increased between September and October of 2006 since its October offer corrected certain assumptions about Complainant's related business factors in estimating Complainant's alternate fuel costs.

It is denied that UGI did or could retaliate against Complainant since UGI is unable to charge more than what Complainant's alternate fuel economics would justify; otherwise Complainant could simply refuse the offer and use its alternate fuel.

It is admitted that Complainant sent a copy of a draft formal complaint to UGI. However, this complaint contained no information suggesting that UGI's estimate of Complainant's alternate fuel economics was incorrect or that Complainant's load would shift to an alternate fuel if UGI's Rate IS-DSO price quote were not lowered. UGI also did not believe that engaging in a legal debate would be productive.

It is admitted that UGI conducted an inspection of Complainant's facilities and discovered load that, consistent with the terms of UGI's tariff, did not qualify to receive service under an interruptible rate schedule since a documented and installed alternate fuel capability was not present. It is denied that this inspection was conducted in retaliation for Complainant's drafting of a formal complaint.

It is admitted that UGI demanded that service not qualifying for service under interruptible rate schedules be separately metered and served under an applicable firm rate schedule.

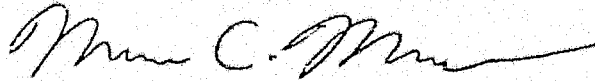
VII. REQUEST FOR RELIEF

The provisions of this portion of the formal complaint are request for relief to which no response is required.

WHEREFORE, UGI respectfully requests that the complaint of Farmer's Pride, Inc. be

denied.

Respectfully submitted,



Mark C. Morrow
(Attorney I.D. No. 33590)
460 North Gulph Road
King of Prussia, PA 19406
Phone: 610-768-3628
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Phone: 717-731-1970
Fax: 717-731-1985
E-mail: akanagy@postschell.com

Counsel for UGI Utilities, Inc. – Gas Division

Dated: November 27, 2006

VERIFICATION

Peter G. Terranova, deposes and says that he is Vice President - Operation for UGI Utilities, Inc.; that he is duly authorized to and does make this verification on its behalf; that the facts set forth in the foregoing affiliated interest filing are true and correct to the best of his knowledge information and belief, and that this Affidavit is made subject to the penalties of 18 Pa.C.S. §4904 (relating to unsworn falsification to authorities).

Peter G. Terranova

Peter G. Terranova

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

FARMER'S PRIDE, INC.

v.

UGI UTILITIES, INC. -
GAS DIVISION

Docket No. C-20067047

CERTIFICATE OF SERVICE

I hereby certify that I have, this 27th day of November, 2006, served a true and correct copy of the foregoing document in the manner and upon the persons listed below in accordance with requirements of 52 Pa. Code §1.54 (relating to service by a participant):

VIA FIRST CLASS AND ELECTRONIC MAIL:

Marybeth Christiansen, Esq.
McKenna Long & Aldridge, LLP
28 South Waterloo Road, Suite 101
Devon, PA 19333
mchristiansen@mckennalong.com

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NOV 27 2006

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU



Mark C. Morrow



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
Office of Administrative Law Judge
P.O. BOX 3265, HARRISBURG, PA 17105-3265
December 4, 2006

IN REPLY PLEASE
REFER TO OUR FILE

In Re: C-20067047

(SEE ATTACHED LIST)

Farmer's Pride, Inc. v. UGI Utilities, Inc.

Complaint Against Existing Rate

Hearing Notice

This is to inform you that a hearing on the above-captioned case will be held as follows:

Type: Initial Hearing

Date: Monday, February 5, 2007

Time: 10:00 a.m.

Location: In an available hearing room
Philadelphia State Office Building
Broad and Spring Garden Streets
Philadelphia, PA 19130

Presiding: Administrative Law Judge Charles E. Rainey, Jr.
1302 Philadelphia State Office Building
1400 West Spring Garden Street
Philadelphia, PA 19130
Telephone: 215-560-2105
Fax: 215-560-3133

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DEC 14 2006

Attention: You may lose the case if you do not come to this hearing and present facts on the issues raised.

If you intend to file exhibits, 2 copies of all hearing exhibits to be presented into evidence must be submitted to the reporter. An additional copy must be furnished to the Presiding Officer. A copy must also be provided to each party of record.

Individuals representing themselves do not need to be represented by an attorney. All others (corporation, partnership, association, trust or governmental agency or subdivision) must be represented by an attorney. An attorney representing you should file a Notice of Appearance before the scheduled hearing date.

If you are a person with a disability, and you wish to attend the hearing, we may be able to make arrangements for your special needs. Please call the scheduling office at the Public Utility Commission at least (2) two business days prior to your hearing:

- Scheduling Office: 717-787-1399
- AT&T Relay Service number for persons who are deaf or hearing-impaired: 1-800-654-5988

pc: Judge Rainey
Stacy Nolan, Scheduling Officer
Beth Plantz
Docket Section
Calendar File



UGI Utilities Inc.
450 North Gulph Road
King of Prussia, PA 19406
Post Office Box 858
Valley Forge, PA 19482-0858
(610) 337-1000 Telephone
(610) 992-3259 Fax

ORIGINAL

December 12, 2006

VIA EXPRESS MAIL

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

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DEC 12 2006

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

**DOCUMENT
FOLDER**

Re: Farmer's Pride, Inc. v. UGI Utilities, Inc., Docket No.C-20067047

Dear Secretary McNulty:

On November 27, 2006 UGI Utilities, Inc. – Gas Division filed an answer to the above-captioned formal complaint of Farmer's Pride, Inc. with a verification that contained a signature authorized by the verifying party, but not physically signed by him. In response to concerns expressed by Farmer's Pride, Inc., I am now submitting an original and three copies of a verification that was physically signed by the verifying party.

Should you have any questions concerning this filing, please feel free to contact me.

Very truly yours,

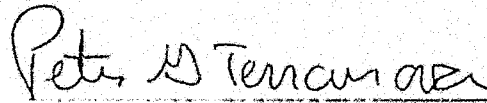
Mark C. Morrow

Counsel for UGI Utilities, Inc. –
Gas Division

cc: D.MacGregor
A.Kanagy

VERIFICATION

Peter G. Terranova, deposes and says that he is Vice President - Operation for UGI Utilities, Inc.; that he is duly authorized to and does make this verification on its behalf; that the facts set forth in the foregoing affiliated interest filing are true and correct to the best of his knowledge information and belief, and that this Affidavit is made subject to the penalties of 18 Pa.C.S. §4904 (relating to unsworn falsification to authorities).


Peter G. Terranova

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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FARMER'S PRIDE, INC.

v.

UGI UTILITIES, INC. -
GAS DIVISION

Docket No. C-20067047

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

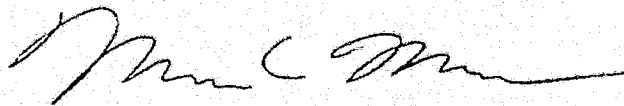
CERTIFICATE OF SERVICE

I hereby certify that I have, this 12th day of December, 2006, served a true and correct copy of the foregoing document in the manner and upon the persons listed below in accordance with requirements of 52 Pa. Code §1.54 (relating to service by a participant):

VIA FIRST CLASS AND ELECTRONIC MAIL:

Marybeth Christiansen, Esq.
Stephen K. Gardner, Esq.
Alan R. Jenkins, Esq.
McKenna Long & Aldridge, LLP
28 South Waterloo Road, Suite 101
Devon, PA 19333
mchristiansen@mckennalong.com
sgardner@mckennalong.com
ajenkins@mckennalong.com

The Honorable Charles E. Rainey, Jr.
Pennsylvania Public Utility Commission
1302 Philadelphia State Office Building
1400 West Spring Garden Street
Philadelphia, PA 19130
crainey@state.pa.us



Mark C. Morrow