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May 31, 2017

VIA E-FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

**Re: Alternative Ratemaking Methodologies,
Docket No. M-2015-2518883**

Dear Secretary Chiavetta:

Enclosed, please find the comments of the UGI Distribution Companies filed in response to (a) the Commission's Tentative Order entered on March 2, 2017 at the above docket and (b) associated Commissioner Statements.

Very truly yours,

Mark C. Morrow

Counsel for the UGI Distribution Companies

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Alternative Ratemaking Methodologies : Docket No. M-2015-2518883

COMMENTS OF THE
UGI DISTRIBUTION COMPANIES

I. INTRODUCTION

The UGI Distribution Companies ("UGI"), comprised for the purpose of this submission of UGI Utilities, Inc. – Gas Division ("UGI-GD"), UGI Utilities, Inc. – Electric Division ("UGI-ED"), UGI Penn Natural Gas, Inc. ("UGI-PNG") and UGI Central Penn Gas, Inc. ("UGI-CPG"),[1] appreciate this opportunity to submit comments and information in response to the Commission's Tentative Order entered on March 2, 2017 in the above-captioned proceeding, as well as the associated Commissioner statements. These comments are meant to supplement the comments filed by the Energy Association of Pennsylvania ("EAP") in response to the Tentative Order, as well as the comments jointly submitted by UGI-GD, UGI-PNG and UGI-CPG on March 16, 2016 in response to the presentations made at the Commission's March 3, 2016 *En Banc* hearing at the above docket.

The Tentative Order catalogs certain rate practices or designs in its "Alternative Rate Methodologies" section. Some of the identified "alternative" rate practices or designs, such as (a) cost trackers, (b) choices in the use of test year, (c) use of demand charges and (d) standby and back-up rates are already in use by way of Commission policy or by statutory direction, and

[1] UGI-GD, UGI-PNG and UGI-CPG are certificated natural gas distribution companies ("NGDC") that provide natural gas distribution service to in excess of 617,000 customers in service territories encompassing all or portions of 44 Pennsylvania counties. UGI-ED is a certificated electric distribution company ("EDC") that provides electric distribution service to approximately 62,000 customers in portions of two Pennsylvania counties.

are thus not an "alternative" to current practices. Instead they are alternatives or supplements to the setting of rates in traditional general base rate case proceedings, where revenue requirements are determined by examining certain test years, and rates are then designed to recover revenue requirements, and are thereafter generally not subject to adjustment until a subsequent general base rate case.

Other "alternative" rate practices or designs identified in the Tentative Order, such as (a) revenue decoupling, (b) DSM Performance Incentive Mechanisms and (c) multi-year rate plans, have not, to UGI's knowledge, been utilized even though the Commission may have the authority to do so.

The "Utility Implementation of Alternative Rate Methodologies" portion of the Tentative Order, in turn, seeks information concerning alternative rate methodologies currently in use, recommended alternative rate methodologies and the anticipated effects of these alternative rate methodologies.

The statements of Commissioners Place and Sweet seek comments concerning specific rate alternatives or anticipated rate impacts.

The Statement of Commissioner Powelson recognizes that Pennsylvania has been a leader in innovative rate mechanisms, that a "one size fits all" rate design may not be possible, and seeks "comment regarding alternative ratemaking mechanisms which will be most beneficial for the electric, natural gas, and water/wastewater industry while ensuring robust consumer protections."

II. GENERAL COMMENTS

Rate making methodologies or designs, whether alternative or otherwise, are not ends in and of themselves, but are instead tools used to achieve goals or objectives. Defining the appropriate goals and objectives of rate design, in turn, demands a consideration of the functions and responsibilities of public utilities, and the often dynamic environments and conditions they operate in.

Considering its functions and responsibilities, and the dynamic environments it operates in, UGI believes the following points should inform rate design:

- The Commonwealth's citizens and businesses experience tremendous value from having access to efficient and safely-operated NGDC and EDC systems that enable them to receive natural gas and electricity at reasonable cost.
- NGDC and EDC systems are capital intensive and thus can have relatively high fixed costs; to the extent customer density can be increased to the maximum extent possible by, for example, granting exclusive service territories, permitting rate flexibility to meet competition from energy alternatives, or by promoting new gas or electric technologies and/or business development opportunities, fixed cost recovery can be spread over a wider customer base and downward pressure can be placed on the distribution rates charged to customers.
- The capital-intensive nature of NGDC and EDC systems also means they have to attract large amounts of capital in often dynamic capital markets that, in part, price capital based on perceived market and regulatory risk.
- Rate policies which are easily understood, predictable and fairly applied can reduce perceived regulatory risks.
- Rate policies which may be useful in addressing certain market risks, such as weather volatility, may reduce the perceived market risk, thereby potentially reducing the costs of capital.

- Efficient operation of distribution systems and cost-effective system growth can benefit customers, and rate policies and designs should not remove incentives to control costs or pursue growth opportunities.
- In addition to their core responsibilities, NGDCs and EDCs in Pennsylvania have a number of additional responsibilities assigned by statute or Commission policy that may call for differing rate treatments.
- Such responsibilities include (a) procuring natural gas and electric power for supplier-of-last-resort and default service customers that elect not to procure such supplies in the retail market, (b) providing services to licensed retail choice suppliers and operating programs designed to facilitate retail choice, (c) operating extensive universal service programs, (d) operating energy conservation programs, (e) encouraging and supporting alternative energy technologies or options and (f) remediating environmentally contaminated sites.
- Generally, NGDCs and EDCs should be permitted to recover the costs of implementing non-core regulatory or state policies on a full and timely basis to reduce perceived regulatory risks.
- Rate and regulatory policies should recognize NGDCs and EDCs compete to meet the energy needs of customers, and should attempt to create a level playing field where the relative merits of available energy sources are apparent to customers.

Given the multiple dynamics under which NGDCs and EDCs operate, and the range of responsibilities they must fulfill, UGI believes that there is no ideal rate design that should apply to all NGDCs or EDCs at all times. In general, UGI believes there should be a bias towards permitting NGDCs and EDCs discretion in making initial rate proposals rather than prescribing rules that may make sense at one point in time, but which may not be appropriate as conditions change. NGDCs and EDCs are in the best position to understand the dynamics of the environments they operate in, and to propose rates that are appropriate for those dynamics. The Commission, of course, is then free to accept or reject such recommendations, and in doing so it should rule on such proposals in an open, transparent and fair manner that provides the highest level of predictability to capital markets.[2]

UGI believes traditional cost-of-service general base rate procedures still have relevance. Periodic general base rate proceedings provide an opportunity to comprehensively examine utility base rates and make appropriate adjustments. Thereafter, by generally not making base rates subject to adjustment between base rate cases, a powerful incentive is provided for utilities to operate efficiently and seek out growth to offset inflationary pressures. Supplemental responsibilities that arise between base rate cases can and should be addressed through supplementary and incremental rate recovery mechanisms.

UGI believes the Commission has done a good job in considering and adopting new rate mechanisms that have permitted UGI to react to changes in the markets it serves. For example, the Commission permitted UGI NGDCs to adopt flexible rates to reflect the fact that natural gas often competes with alternative forms of energy and for potential customers that often have options to locate their facilities in alternative geographic areas. By permitting flexible rates, UGI's NGDCs have been able to add or retain customer loads that might otherwise had been lost, and the revenues received from serving such loads have made a considerable contribution towards the fixed system costs to the benefit of all customers. Another example has been the Commission's approval of UGI's Growth Extension Tariff ("GET Gas") pilot program, designed

[2] A policy of encouraging voluntary settlements also provides a level of reassurance to capital markets that regulatory outcomes are fair, although litigated proceedings can also provide guidance to capital markets and regulatory participants engaged in settlement discussions as to expected regulatory outcomes if litigation is pursued.

to explore new alternatives for extending its natural gas systems into unserved and under-served area of the Commonwealth in an economic manner. This has enabled UGI to respond to new market conditions, including the divergence of oil and gas prices, which has created increased demand for the availability of natural gas distribution service. Yet another example has been the Commission's recent approval of a Technology and Economic Development ("TED") rider pilot to evaluate the benefits of providing additional rate flexibility to accommodate the special needs of smaller volume commercial and industrial customers that may be making substantial investments to adopt natural gas technologies. Each of these examples shows the benefits of permitting NGDCs and EDCs to propose rate designs and programs best suited to their current circumstances from a menu of available options, and of the wisdom of the Commission in being willing to consider and authorize new rate designs to address changing circumstances.

III. RESPONSES TO TENTATIVE ORDER QUESTIONS

A. Electric Utilities

1. Identify the alternative rate methodologies each EDC is currently using, including the number and types of automatic adjustment clauses, cost trackers and separate cost recovery mechanisms. Also identify, as a percentage of total costs or revenues, the costs or revenues each separate mechanism recovers.

For UGI-ED the following chart shows the rate mechanisms that it believes are encompassed by the Tentative Order's question along with associated information – please note that because of the demands of implementing its new customer information system and the base rate proceedings of UGI-PNG, certain of the requested information is not currently available ("NCA"):

Rate Mechanism	Percentage of Revenues	Percentage of Costs	Time Period/Comment
State Tax Surcharge	NCA	100%	Generally recovers or refunds the costs of state tax changes between base rate cases
Net Metering	NCA	Not Applicable	Provides a credit to qualifying customer-generators – the distribution credit is generally not recoverable between base rate cases
Power Factor Charge	NCA	Not Applicable	A rider on the Rates under certain rate schedules if power factors fall below 90%
Pole Removal and Relocation Charge	NCA	100%	Recovers costs of customer-requested pole removals and relocations
Generation Supply Service Charge	NCA	100%	Recovers costs of securing default service supplies pursuant to a PUC-approved supply plan
Customer Assistance Program Rider	NCA	100% of costs for which there was not a separate allowance in base rates.	Recovers Customer Assistance Program costs
Energy Efficiency and Conservation Rider	NCA	100%	Recovers costs of PUC-approved EE&C program

2. ***If any, what alternative rate methodologies could and should be used by EDCs? Regarding the proposed methodology(ies), please provide specific comments on:***

a. ***The potential advantages;***

b. *The potential disadvantages;*

c. ***The effects on all rate classes, with a specific focus on small volume, low-income, income-challenged[3] and large C&I customers, as well as a discussion regarding any potential inter- or intra-class cost shifting;***

d. ***The effects on existing energy efficiency and peak demand reduction programs; and***

e. ***The effects on the number and/or frequency of base rate case filings, as well as possible rate increases or decreases.***

3. ***How would the particular alternative rate methodology(ies) interact with existing mechanisms or traditional ratemaking principles currently in use or available to EDCs (e.g., the distribution system improvement charge (DSIC) or FPFTY, etc.)?***

4. ***How would such a methodology be implemented? Specifically, in what timeframe? Is there a need for a gradual implementation or phasing-in process?***

UGI is generally pleased with the existing array of rate options available to it, but believes the Commission should more actively signal it is open to making explicit performance awards in base rate proceedings, pursuant to Section 523 of the Public Utility Code, 66 Pa.C.S. §523, for small EDCs that, among other things, that take "[a]ction[s] ... to encourage development of cost-effective energy supply alternatives such as conservation or load management[.]" 66 Pa. C.S. §523(b)(4).

UGI-ED is not subject to the EE&C and smart meter provisions of Act 129, but is mindful of the fact that the prescriptive EE&C provisions of Act 129 were adopted at a time when it was expected that electric prices would dramatically increase, when they in fact subsequently decreased, and that many believe the provisions of the Act 129 would be better advanced by providing incentive for performance, rather than penalties for non-performance. Act

[3] In this context, income-challenged customers would be those near, but not below, the Federal Poverty Income Guidelines or those that are identified as payment troubled customers (*e.g.,* large arrearages).

129 EE&C programs may also create un-intended consequences that place more efficient gas technologies at a competitive disadvantage to less efficient electric technologies. The Act 129 experience suggests the potential perils of attempting to adopt a one-size-fits-all approach to a perceived problem, and the unintended consequences that can occur when there is a lack sufficient flexibility to adjust to changes in market dynamics.

UGI is aware advances in technology, such as distributed generation or the widespread adoption of electric vehicles, may subject EDCs to new market risks and opportunities and decrease or increase the customer base over which their fixed system costs are shared. For some EDCs in some circumstances new rate approaches, such as rate decoupling, may make sense. However, UGI does not believe that such rate alternatives should be mandated or would make sense for all EDCs.

B. Natural Gas Utilities

1. Identify the alternative rate methodology(ies) each NGDC is currently using, including the number and types of automatic adjustment clauses, cost trackers and separate cost recovery mechanisms. Also identify, as a percentage of total costs or revenues, the costs or revenues each separate mechanism recovers.

For the UGI NGDCs the following chart shows the rate mechanisms that it believes are encompassed by the Tentative Order's question along with associated information– please note that because of the demands of implementing its new customer information system and the base rate proceedings of UGI-PNG, certain of the requested information is not currently available ("NCA"):

Rate Mechanism	Percentage of Revenues	Percentage of Costs	Time Period/Comment
State Tax Surcharge	NCA	100%	Generally recovers or refunds the costs of state tax changes between base rate cases
Contribution-In-Aid-of-Construction Charges	NCA	100% of costs of extensions of service not justified by anticipated revenues for customers not participating in GET Gas	
GET Gas Rider Pilot	NCA	Designed to recover 100%	Recovers costs of qualifying line extensions through class-based charges
Purchased Gas Cost Charges	NCA	Recovers 100% of costs of a portfolio of gas supplies to serve suppler of last resort customers that meet certain statutory tests in an annual review process	
Incentive Sharing Mechanism	NCA	Not Applicable	Permits Company to retain 25% of certain revenues received through efforts to maximize the value of PGC assets in secondary markets when they are not needed to meet core market demand.
Merchant Function Charge	NCA	Designed to recover 100% of costs	Charge designed to recover uncollectible expenses from PGC customers to place PGC price-to-compare on a more equal footing with NGS offerings

Gas Procurement Charge	NCA	Rate not reconciled to actual costs	Charge designed to recover costs of procuring gas commodity from PGC customers to place PGC price-to-compare on a more equal footing with NGS offerings
Universal Service Program Rider	NCA	100% of eligible costs	Reconcilable charge designed to recover the actual costs of providing universal service programs
EE&C Rider	NCA	100% of eligible costs	Reconcilable charge designed to recover the actual costs of implementing a Commission-approved energy efficiency and conservation program
Technology and Economic Development Rider Pilot	NCA	Not Applicable	Rate mechanism designed to provide increased rate options for Rate N, NT, DS and LFD customers to address project-specific competitive issues and to expand the use of natural gas in an economic manner.
Distribution System Improvement Charge	NCA	Up to 100% of eligible costs and return on investment	Rate mechanism authorized by statute to permit the timely recovery of and on investments in eligible facilities between base rate cases.
Standby Service Charge	NCA	Rate not reconciled to actual costs	Charge imposed where gas is being used as a back-up or supplementary fuel.
Demand Charge Rates	NCA	Not Applicable	UGI has various rates with demand charge

			components.

2. **If any, what alternative rate methodology(ies) could and should be used by NGDCs and explain why would they be beneficial? Regarding the proposed methodology(ies), please provide specific comments on:**
   f. **The potential advantages;**
   g. **The potential disadvantages;**
   h. **The effects on all rate classes, with a specific focus on small volume, low-income, income-challenged and large C&I customers, as well as a discussion regarding any potential inter- or intra-class cost shifting;**
   i. **The effects on existing energy efficiency programs; and**
   j. **The effects on the number and/or frequency of base rate case filings, as well as possible rate increases or decreases.**
3. **How would the particular alternative rate methodology(ies) interact with existing mechanisms or traditional ratemaking principles currently in use or available to NGDCs (*e.g.*, DSIC, FPFTY, etc.)?**
4. **Address the efficacy of weather normalization adjustments currently in use, what changes should be made to the adjustments to improve them and whether they should be expanded to other NGDCs.**
5. **How would such a methodology be implemented? Specifically, in what timeframe? Is there a need for a gradual implementation or phasing-in process?**

The UGI NGDCs are generally pleased with the existing array of rate options available to them, but believe the Commission should more actively signal it is open to making explicit performance awards in base rate proceedings for NGDCs, pursuant to Section 523 of the Public Utility Code, 66 Pa.C.S. §523, if they, among other things, take "[a]ction[s] … to encourage development of cost-effective energy supply alternatives such as conservation or load management[.]" 66 Pa. C.S. §523(b)(4).

The UGI NGDCs currently do not have weather normalization adjustment clauses in effect, but believe such rate mechanism should be an available option if, in their judgment, mitigating the effects of weather through an appropriate rate mechanism would be meaningfully beneficial. Since UGI does not believe that the situation of all NGDCs in accessing capital markets is the same, or remains static over time, it does not believe the adoption of weather normalization mechanisms should be mandated or adopted pursuant to a specific timeframe.

IV. COMMISSIONER SWEET STATEMENT

A. Low and Income-Challenged Customer Impact

A primary focus of the *en banc* hearing was on revenue decoupling mechanisms designed to remove disincentives to the promotion by NGDCs and EDCs of energy efficiency and conservation programs between base rate cases by permitting interim adjustments in rates to maintain targeted revenues per customer. The joint comments filed by the Keystone Energy Efficiency Alliance, the Clean Air Council and Natural Resources Defense Council generally supported revenue decupling, but recognized revenue decoupling adjustments could lead to increased rates for low-income customers. Potential rate mechanisms or policies, including mandatory base rate proceedings conducted every three years, were identified as a potential means of mitigating the impact on low-income customers. Similarly, this topic was touched on in the comments filed by the Office of Consumer Advocate which generally did not support revenue decoupling.

In UGI's view, revenue decoupling mechanisms should not be viewed as a major concern for low-income or income-challenged customers. UGI and other NGDCs and EDCs in Pennsylvania already operate robust Customer Assistance Programs ("CAP") that cap payments for qualifying customers based on a percentage of their income, and not the full retail rate. Thus, low-income customers would be shielded from any decoupling rate adjustment to the extent their payments are based on their income rather than full retail rates. Moreover, to the extent the Commission concluded income-challenged customers not otherwise eligible for CAP should be shielded from any revenue decoupling adjustments, it may address this through the design of the revenue decoupling adjustment mechanism by, for example, exempting or reducing revenue decoupling adjustments for identified income-challenged customers.

Finally, the Commission should recognize that there is a tension between the goal of conservation that results in decreased use per customer or decreased numbers of customers, and the goal of reducing distribution rates, regardless of the rate design. NGDC and EDC systems are capital intensive, and to the extent customer accounts are reduced because customers switch to alternative forms of energy or reduce their usage of the energy distributed by NGDC and EDC systems, capital costs will have to be recovered over a smaller customer or consumption base, resulting in higher per unit rates. While revenue decoupling mechanisms may reduce the time lag between decreased customer use and associated rate adjustments, ultimately such rate adjustments will occur even if the adjustment is deferred to a base rate proceeding.

B. DSIC Impact

Once again, the primary focus of the *en banc* hearing presentations was on revenue decoupling mechanisms designed to remove disincentives to NGDCs and EDCs to promote decreased energy consumption between base rate cases by permitting interim adjustments in rates to maintain targeted revenues per customer. Thus, the revenue decoupling mechanisms are means to reduce the regulatory lag associated with decreased use per customer or decreased customer counts.

The changes initiated by Act 11, including authorizing DSICs to permit recovery of qualifying costs, a return on and off investments in certain defined eligible property between base rate cases, and the authorization of the use of fully projected future test years, are also mechanisms designed to influence NGDC and EDC behavior by reducing regulatory lag.

To the extent both mechanism were in place (as supplemented by other rate mechanisms, such as weather adjustment mechanisms, STAS, universal service cost recovery mechanisms, PGC and default service rate adjustments, that would also permit adjustments in rates between base rate cases), each mechanism would presumable work to defer the date when base rate relief would need to be requested.

To the extent multiple mechanisms are in place that permit the adjustment of rates between base rate cases, does this mean that the Commission should permit formulary rates that permit adjustment of rates for all reasons and categories of costs? In UGI's view the answer is no.

The use of periodic base rate proceedings that are not spaced too closely together provides an appropriate incentive for utilities to operate efficiently and strive to reduce costs with respect to those aspects of operations that are within their management control. However, there can be multiple ways by which utility earnings can be influenced between base rate cases by events which are not within management control. Changes in state taxes or weather variations are good examples of events beyond management control, where mechanisms permitting adjustment between base rate proceedings can be beneficial in reducing perceived regulatory and market risks while not reducing incentives for utilities to operate efficiently. Statutory or regulatory PGC, default service and universal service costs recovery mechanisms appropriately permit the recovery of costs that may vary significant between base rate cases because of events largely beyond the control of utility management, while providing regulatory mechanisms outside of base rate proceedings where the prudence of utility management can be assessed for those activities or practices which are within management control. Similarly, the Act 11 changes established a process whereby utilities could accelerate investments in eligible property in a significant and sustained way while deferring the timing of base rate cases that might otherwise occur in a serial fashion because of the scale of the investments involved, while providing alternative mechanisms to assess management performance of conditions within their control between base rate proceedings.

V. COMMISSIONER PLACE STATEMENT

A. <u>Advanced Rate Design Consideration for EDCs</u>

Comments have been requested on a three part rate design for EDCs that would include a customer charge, a demand charge and a volumetric charge, each recovering defined costs, with a proposed nine-year implementation schedule that would include three base rate cases. It is noted EDCs would need to have smart meters and appropriate back office systems to implement such rates, and that consumers would need to be educated.

UGI-ED, being an EDC serving fewer than 100,000 customers, was not required by the provisions of Act 129 to install smart meters, and has a limited number of demand maters in place. Thus, UGI-ED current lacks the requisite infrastructure to implement a demand charge rate for all customer classes.

It is also unclear what public policy goals would be advanced by mandating the proposed rate structure. If the intent is to address the costs impacts of customers with install intermittent distributed generation assets, it is not clear why such potential impacts could not better be addressed by imposing a standby charge on such customers rather than changing the rate structure of all customers. Moreover, it is difficult to predict with certainty what the future may bring in the distributed generation market, or how such developments may affect different companies serving different geographic areas and customer populations. UGI also believes that by mandating a specific timetable for the filing of base rate cases, regardless of need, incentives for EDCs to operate efficiently would be reduced. Given these uncertainties and considerations, UGI believes that a one-size-fits-all approach to rate design should not be mandated, and that the Commission should wait to consider specific proposal from specific companies if and when changes in rate design are considered important to address evolving market conditions.

B. Performance Incentives

UGI generally supports the concept of offering performance incentives establishing authorized rates of return in base rate proceedings, and believes the Commission already has the requisite legal authority to do so under 66 Pa.C.S. §523. While it is less clear if the Commission could consider performance factors in setting the return on capital in DSIC calculations under 66 Pa.C.S. §1357(b), to the extent the Commission is determined to have that authority UGI would generally support providing performance incentives.

C. NGDC Decoupling Consideration

UGI is not opposed in theory to a revenue decoupling mechanism to address declining use per customer for those NGDCs where this is a significant problem. UGI does not believe, however, that this rate design should be mandated for all NGDCs. UGI has been able to offset declining use per customer trends, where present, through profitable customer growth, operating efficiencies or through base rate proceedings. In this regard, UGI would note that while declining use per customer was an important concern when gas prices were high, spurring customer conservation efforts and competition from alternative energy sources, the shale gas revolution has significantly reduced gas costs resulting in less customer conservation and increased demand for natural gas distribution service. These developments show how market forces can change in unexpected ways and why there should be flexibility in rate design approaches.

UGI also does not think that revenue decoupling measures are necessary to (a) support the expansion of infrastructure to new customers under line extension policies or (b) support infrastructure replacement.

UGI NGDC gas service tariffs require contributions from certain new or existing customers seeking an expansion of service beyond a level of Company investment that is justified by anticipated revenues, but does not restrict estimated revenues to any specific defined consumption amount, so flexibility already exists to adjust expected customer usage.

Moreover, under Act 11, UGI is now able to utilize a fully projected future test year in setting rates, thereby reducing regulatory lag associated with any declining use per customer, and given the scale of LTIP-approved projects and the size of authorized DSIC charges, it is likely the UGI NGDCs will be filing fairly frequent base rate cases for the foreseeable future, thereby permitting more frequent adjustments to reflect then existing use per customer levels, thereby decreasing the utility of any mechanism designed to permit adjustments between base rate cases.

Finally, UGI is concerned that developing a rate mechanism that adjusts rates to reflect revenue per customer might provide a disincentive to efforts, such as convincing existing heating customers to convert their water heaters from electricity to gas, that would dramatically increase overall efficiency from a source to end-use perspective, and provide long-term savings to customers, but could result in increased revenue per customer.

D. <u>Directed Questions for Electric Distribution Company Proposal</u>

Given that UGI-ED currently does not have the metering or back-office infrastructure in place to implement demand-based rates for all customer classes, it has not developed a detailed view on the best design for the design of such rates or how best to educate customers concerning any such rate proposal.

E. Directed Questions for Natural Gas Distribution Company Personnel

Given the fact that the UGI NGDCs are likely to be involved in more frequent base rate cases because of the scale of their commitments under their Commission-approved Long-Term Infrastructure Improvement Plans, and their already-approved (UGI-GD), proposed (UGI-PNG) or planned (UGI-CPG) Energy Efficiency and Conservation Programs, UGI generally does not see the need for implementation of revenue decoupling at this time, and accordingly has not developed positions on the detailed revenue decoupling mechanism set forth in Commissioner Place's statement.

VI. COMMISSIONER POWELSON STATEMENT

As noted in the comments above, UGI appreciates the flexibility the Commission and the General Assembly have shown in permitting NGDCs and EDCs to develop and implement appropriate rate mechanisms to respond to the dynamic conditions that operate in.

In general, in considering actions the Commission might take "to increase the utilization of alternative ratemaking mechanisms which benefit the interests of all the stakeholders[,]" UGI encourages the Commission to:

- Continue to evaluate existing experimental rate mechanisms, such as UGI's GET Gas pilot and TED pilot, to ensure that the efficiency, environmental , economic development and energy security benefits of expanding the availability and use of natural gas distribution service in the Commonwealth can be realized in a manner that is fair to existing and prospective customers;
- Given the inherent efficiency gains that are associated with the direct end-use of natural gas for heating purposes or the cogeneration of electricity, as opposed to alternative energy sources such as electric, take necessary actions to ensure the natural gas is not

disadvantaged through EDC energy efficiency and conservation programs by, for example, focusing program measures on uses for which natural gas does not compete, and ensuring that cogeneration facilities are considered and evaluate in a non-discriminatory manner.

- Consider reducing the first-cost barriers to the use of natural gas by permitting NGDCs, where appropriate and cost-effective, to recover the costs of installing customer fuel lines and gas consuming equipment or the costs of rebates for the same through their distribution rates.
- Consider the active and explicit use of the Commission's authority under 66 Pa.C.S. §§523 to provide performance incentives in setting allowed returns in base rate proceedings.

VII. CONCLUSION

UGI once again applauds the Commission for the flexibility and innovation it was shown in considering and implementing innovative rate mechanisms to address changes in the natural gas and electric markets, and in permitting timely recovery of costs incurred by NGDCs and EDCs in performing non-core responsibilities. These actions have reduced regulatory and market risks and have enabled the Commonwealth's NGDCs and EDCs to attract capital needed to maintain and expand energy grids. UGI encourages the Commission to build on this legacy of flexibility and innovation by not adopting a one-size-fits-all approach to rate making, and to instead permit diversity in rate designs to reflect the unique circumstances of the NGDCs and

EDCs it regulates.

Respectfully submitted,

Mark C. Morrow

Counsel for the UGI Distribution Companies

Dated: May 31, 2017