



COMMONWEALTH OF PENNSYLVANIA

September 15, 2017

E-FILED

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

**Re: Petition of UGI Utilities, Inc. - Electric Division for Approval of its
Long-Term Infrastructure Improvement Plan
Docket No. P-2017-2619834**

Dear Secretary Chiavetta:

I am delivering for filing today the Comments of the Office of Small Business Advocate (OSBA), in response to the Petition of UGI Utilities, Inc. – Electric Division for approval of its Long Term Infrastructure Improvement Plan, docketed at No. P-2017-2619834.

Copies of these Comments will be served on all known parties, as indicated on the attached Certificate of Service.

If you have any questions, please do not hesitate to contact me.

Sincerely,


Steven C. Gray
Assistant Small Business Advocate
Attorney ID No. 77538

Enclosures

cc: Mr. Robert D. Knecht
Parties of Record

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of UGI Utilities Inc. - Electric :
Division for Approval of its Long-Term : **Docket No. P-2017-2619834**
Infrastructure Improvement Plan :

**COMMENTS OF THE
OFFICE OF SMALL BUSINESS ADVOCATE**

I. Introduction

On August 16, 2017, UGI Utilities Inc. -- Electric Division (“UGI Electric” or the “Company”) filed a Petition for Approval of its Long-Term Infrastructure Improvement Plan (“LTIP”) with the Pennsylvania Public Utility Commission (“Commission”).

The Office of Small Business Advocate (“OSBA”) submits these Comments to the Company’s LTIP as permitted by 52 Pa. Code § 121.4(c).

II. Comments

The requirements for an LTIP are set forth in Section 1352 of the Public Utility Code, 66 Pa. C.S. § 1352. In addition, the Commission regulations state, as follows:

A utility has the burden of proof to demonstrate that its proposed LTIP and associated expenditures are reasonable, cost effective and are designed to ensure and maintain efficient, safe, adequate, reliable and reasonable service to consumers.

52 Pa. Code § 121.4(d).

A. In General

The Company’s LTIP appears to be focused on the replacement and upgrade of aging distribution infrastructure, much of which has been in service for more than 40 years.

Unfortunately, UGI Electric appears to have been under-investing in replacement capital over the past few years, and now proposes to accelerate spending in its LTIP. Nevertheless, and to the Company's credit, UGI Electric has already begun the acceleration of spending prior to the submission of its LTIP, although further acceleration is anticipated.

In summary, the Company reports that it spent an average of \$3.5 million per year on distribution system improvement charge ("DSIC")-eligible capital during its "baseline" period of 2012 to 2015; the Company's average annual budget for 2016/2017 is \$5.9 million; and the Company's LTIP for 2018-2022 averages \$8.0 million per year.

UGI Electric details 17 categories of costs included in its LTIP. However, four of these categories account for roughly 75 percent of the increase in spending above the historical baseline:

- Major distribution system improvement projects
- Wooden pole replacements
- Underground residential cable replacement / restoration
- Substation transformer replacements

The OSBA addresses each of these categories, as well as some miscellaneous categories.

B. Major Distribution System Improvement Projects

This category of costs represents over 25 percent of the Company's proposed increase in spending over the baseline period and nearly one-third of the increase over the actual 2016/budget 2017 spending. The OSBA observes that over the five-year period from 2012 to 2016, the Company spent about \$3.9 million. The LTIP forecasts that, for the five-year period from 2018 to 2022, spending will increase to \$9.5 million, nearly 2.5 times the historical level.

Unfortunately, the Company provides little detail regarding these projects. *See* LTIP, at 24. The Company indicates that these projects address “current and forecasted load growth and reliability issues.” *Id.* This is vague, and the OSBA observes that it is questionable whether DSIC-eligible capital should include capital associated with “load growth.”

The Company also indicates that these projects address “sectionalizing” as well as replacement of the 4kV and 8kV systems. *Id.* However, the Company also has a budget for sectionalizing at LTIP page 19 (which is modestly increased over the baseline period) and for 4kV/8kV replacements at LTIP page 28 (which is materially increased over the baseline period). Given the non-specific nature of the proposed projects, it is unclear whether costs budgeted in the major projects category double-count the budgeted spending in other areas.

The OSBA respectfully submits that the Company should provide additional detail regarding the nature of the projects contemplated in this cost category, including (but not limited to) an explanation of whether expenditures are double-counted in other budgets.

C. Wooden Pole Replacements

UGI Electric states that it has 48,511 wooden poles according to the bar graph on page 3. *See* LTIP, at 3.

UGI Electric states it has replaced, on average, 34 poles per year in the 2012-2015 timeframe. LTIP, at 14. Thus, in the baseline period, the implied rate of wooden pole replacement is calculated, as follows:

(48,511 wooden poles) divided by (34 poles per year) = 1,427 years for full replacement

In its proposed LTIP, the Company proposes to increase the replacement rate to 150-200 poles per year, which appears to be similar to the actual/budget rates for 2016 and 2017. LTIP, at 14. At 200 poles per year, UGI Electric will fully replace its wooden poles in 243 years.

The OSBA respectfully submits that the LTIP's historical poles replacement pace appears to have been grossly inadequate if not imprudent. The OSBA respectfully submits that the Company should explain why pole replacement has been so slow. Further, the Company should explain why a replacement rate of 200 poles per year on a population of over 48,000 is sufficient to provide safe and reliable service for the long term.

Furthermore, the baseline period (2012 through 2015) cost per pole is about \$5,500. *See* LTIP, at 14. The comparable values for 2016 and 2017 are not provided directly in the LTIP. However, a little arithmetic suggests that the 2016 costs were \$6,800 ("actual" costs of \$1,122,000 and "targeted" pole replacements of 165). *See* LTIP, at 13. *See also*, LTIP, at 14.

For 2018, the forecast cost per pole range is \$5,000 to \$6,667. However, over the LTIP forecast period, that unit cost increases rapidly to \$10,000 per pole. OSBA respectfully submits that UGI Electric should explain the rationale for wooden pole unit replacement cost increases of 50 percent from 2018 to 2022.

D. Underground Residential Cable Replacement / Restoration

UGI Electric states that the life expectancy of underground cable is 40 to 50 years, and that "over 60% of the cable installed on the UGI Electric system is at least 30 years old." LTIP, at 17. However, the Company provides a bar chart that shows it has 60,388 feet aged 40-49 years, and 100,570 feet aged 30-39 years, compared to a system-wide total of 848,432 feet. *See*

LTIP, at 4. This bar chart implies that 19 percent of its underground residential cable has been in place for more than 30 years. The OSBA requests that UGI Electric clarify this discrepancy.

The Company reports that it replaced 41,000 feet over the last five years. LTIP, at 17. While it is unclear what the cost of that replacement was, the Company indicates that it incurred \$346,000 per year on average over the four years from 2012 to 2015. *Id.* Thus, arithmetic allows the calculation of an estimated average replacement cost of \$346,000 divided by (41,000/5) or about \$42 per foot.

UGI Electric also reports that it replaced “over 23,000 feet” of cable in the single year 2016, at a cost of \$727,000, or a maximum of about \$32 per foot. LTIP, at 17. *See also*, LTIP, at 13.

The LTIP proposes to increase annual spending to a flat \$1.0 million per year over the forecasted five years. LTIP, at 17. While the Company does not report replacement footage, the unit costs calculated above (\$42 or \$32 per foot) suggest a replacement rate on the order of 24,000 to 31,000 feet per year.

Unfortunately, because of the inconsistency provided in the LTIP as set discussed above, it is difficult to determine how quickly the aging cable will be replaced. Specifically, if the LTIP page 4 bar chart numbers are correct, the Company would appear to replace all the “over 30” cable in 5 to 7 years. However, if “over 60 percent” of the installed base is “over 30” cable, as stated on LTIP page 17, the replacement rate would imply that the aging cable would be replaced over a 15 to 20-year period.

The OSBA respectfully requests that the Company clarify its cable replacement plan, and detail its forecast for the period over which aging cable installations will be replaced.

E. Substation Transformer Replacements

UGI Electric has 12 distribution substations with 19 transformers. LTIP, at 30. UGI Electric reports that the typical design life for a substation transformer is 40 years, and that either 13 or 15 of the 19 transformers have been in place more than 40 years. *See* LTIP, at 4, “66/13.8kV Distribution Transformers.” *See also*, LTIP, at 30. The Company has installed/replaced only two transformers over the past 20 years, and none in the baseline period. *Id.*

The LTIP forecasts transformer costs beginning at \$480,000 in 2018, and rising to \$550,000 by 2022. *Id.* Because there is no historical data on transformer costs, it is not possible for the OSBA to evaluate the reasonableness of those projected costs. Thus, the OSBA respectfully requests that the Company provide additional cost data on this issue to justify the proposed spending level.

F. Miscellaneous Issues

The LTIP addresses Right-of-Way Reliability Relocations at page 20. The historical average cost per relocation was \$18,500, whereas the forecast costs are \$25,000 to \$50,000. LTIP, at 20. Does the Company have a justification for this increase? Also, does the Company have any evidence that it faces the need for such relocations in the future, or any explanation for why this need is greater in the future than during the baseline?

The LTIP addresses PennDOT Facility Relocation Projects at page 25. The LTIP indicates that costs projections are based on historical averages. LTIP, at 25. The historical average is \$334,000 for the baseline period (2012 through 2015). However, the LTIP forecasts

that these PennDOT projects will cost \$465,000 per year. What is the Company's basis for this forecast?

The LTIP addresses Distribution Automation at page 26. History shows installation average of approximately \$3,000 per device in the baseline period (2012 through 2015). LTIP, at 26. The LTIP forecasts costs an average cost of \$32,000 to \$43,000 per device. *Id.* Can the Company explain this large difference in unit costs?

The LTIP addresses Porcelain Cutout and Insulator Replacements at page 27. Can the Company explain the significant increase in cost per replacement in the forecast period (\$625 to \$1,000) over historical baseline period (\$500)? *See* LTIP, at 27.

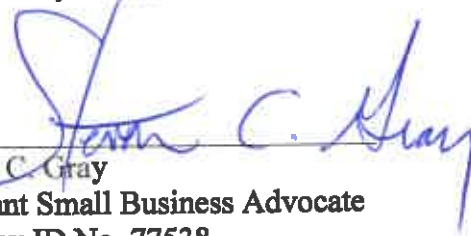
The LTIP addresses Distribution Circuit Breakers at page 31. It is unclear why the baseline period shows an average cost of \$10,000 per circuit breaker replacement, while the forecast period shows an average cost of \$47,000 to \$50,000 per replacement. Can the Company explain this large difference in costs?

The LTIP addresses Distribution Relay Replacements at page 32. UGI Electric reports that four relays have failed in the past four years. LTIP, at 32. However, the Company also states that that spending for replacements between 2012 and 2015 was \$0 or \$1,000. *Compare* LTIP, at 32, *with* LTIP, at 13, Column "Baseline (avg)." Can the Company clarify this discrepancy?

III. Conclusion

Wherefore, the OSBA respectfully submits that the LTIP is inadequate as filed. The OSBA requests that the Company be given the opportunity to supplement its filing to (a) provide a reasonable explanation of the need for the aggressive proposed cost increases addressed in these comments and (b) clarify the inconsistencies in the filed LTIP as discussed herein. The OSBA further respectfully requests that the Commission consider these Comments and the Company's response when it decides whether to approve, reject, modify, or refer to the Office of Administrative Law Judge for hearings on UGI Electric's LTIP.

Respectfully submitted,



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Small Business Advocate

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Dated: September 15, 2017

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of UGI Utilities Inc. - Electric :
Division for Approval of its Long-Term : **Docket No. P-2017-2619834**
Infrastructure Improvement Plan :

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing have been served via email, hand-delivery, and/or First-Class mail (*unless other noted below*) upon the following persons, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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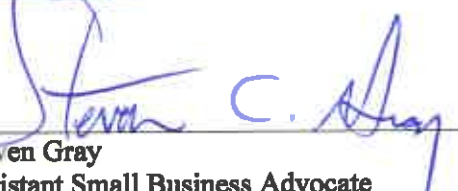
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DATE: September 15, 2017


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Attorney I.D. No. 77538

VERIFICATION

I, John R. Evans, hereby state that the facts set forth herein above are true and correct to the best of my knowledge, information and belief and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. §4904 (relating to unsworn falsification to authorities).

Date: September 15, 2017



(Signature)