

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2017-2602638
Office of Consumer Advocate	:	C-2017-2603457
Office of Small Business Advocate	:	C-2017-2604098
	:	
v.	:	
	:	
UGI Utilities, Inc. – Gas Division 1307(f)	:	

RECOMMENDED DECISION

Before
Steven K. Haas
Administrative Law Judge

INTRODUCTION

This decision recommends approval and adoption of a full settlement of a natural gas distribution company’s annual purchased gas cost tariff. The company’s current rate as of June 1, 2017, for recovery of purchased gas costs is \$6.5015 per Mcf. The rate proposed by the company is \$6.5015 per Mcf. The rate agreed to in the settlement is unchanged at \$6.5015 per Mcf.

HISTORY OF THE PROCEEDING

On May 1, 2017, UGI Utilities, Inc. – Gas Division (UGI or the Company), UGI Central Penn Gas, Inc. (CPG) and UGI Penn Natural Gas, Inc. (PNG) (collectively UGI Companies) submitted their pre-filing preliminary information in support of their annual purchased gas cost tariffs (PGC) pursuant to 52 Pa. Code §§53.64 and 53.65. The three proceedings were consolidated for litigation but not for decision. This Recommended Decision (RD) addresses the UGI filing at R-2017-2602638 only.

On May 10, 2017, the Pennsylvania Office of Consumer Advocate (OCA) filed a Notice of Appearance and Formal Complaint in this proceeding.

On May 12, 2017, the Office of Small Business Advocate (OSBA) filed a Notice of Appearance and Formal Complaint in this proceeding.

On May 16, 2017, the Commission's Bureau of Investigation & Enforcement (I&E) filed a Notice of Appearance in this proceeding.

On June 12, 2017, the UGI Industrial Intervenors (UGIII) filed a Petition to Intervene in this proceeding.

UGI's definitive PGC filing was made on June 1, 2017. The proposed PGC tariff has an effective date of December 1, 2017.

After consultation with counsel, a Prehearing Conference was scheduled for June 13, 2017. A prehearing order was issued on June 6, 2017, which set forth some of the requirements for formal proceedings before the Commission and directed that prehearing memoranda be filed by the parties on or before noon on June 1, 2017. Each party complied with this directive by filing a timely prehearing memo.

The Prehearing Conference was held as scheduled with the following counsel appearing: Danielle Jouenne and Devin Ryan on behalf of the UGI Companies, Lauren M. Burge, on behalf of the OCA, Elizabeth Rose Triscari, on behalf of the OSBA, Scott Granger, on behalf of I&E and Alessandra L. Hylander on behalf of UGIII. At the Prehearing Conference, UGI introduced UGI Utilities, Inc. – Gas Division Exhibit No. 1, consisting of that company's Book 1 and Book 2 filings. UGIII's Petition to Intervene was also granted during the prehearing conference.

The parties agreed upon a litigation schedule, which was set forth and adopted in a Scheduling Order issued on June 13, 2017. Counsel for the UGI Companies indicated during the Prehearing Conference that a proposed protective order would be circulated and filed in the

near future. On June 28, 2017, Counsel for the UGI Companies e-filed and served a Joint Petition for Protective Order, and represented that the Joint Petition was not opposed by any of the other parties. Accordingly, the Joint Petition was granted by Order dated June 29, 2017.

Prior to the evidentiary hearing on July 25, 2017, the parties informed the ALJ that they had reached a full settlement of all issues in this proceeding. The hearing was held as scheduled on July 25, 2017, at which time the verified written testimony and exhibits of the parties were admitted into the record. Also admitted into the record was UGI's Exhibit No. 1, consisting of UGI's preliminary PGC data and exhibits (Book 1) and its definitive PGC filing (Book 2). All parties waived cross-examination of all witnesses.

The parties submitted a Stipulation in Settlement of Section 1307(f) of Rate Investigation on August 11, 2017. The record closed upon its receipt. The matter is now ripe for disposition.

FINDINGS OF FACT

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

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

3. The Commission's Bureau of Investigation and Enforcement (I&E) serves as the prosecutory bureau for purposes of representing the public interest in ratemaking and service matters before the Office of Administrative Law Judge and enforcing compliance with the state and federal motor carrier safety and gas safety laws and regulations. *Implementation of Act 129 of 2008 Organization of Bureaus and Offices*, Docket No. M-2008-2071852 (Order entered August 11, 2011).

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

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

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

[Begin direct quote from Stipulation in Settlement]

A. DESIGN DAY

17. The Company will be permitted to use a design day figure of 843,347 Dth, as proposed, pursuant to the peak day design requirements in its proposal.

B. CAPACITY RESERVES

18. The Company will be permitted to maintain, in its supply portfolio, a capacity reserve in the amount of 2.5% of the Company's firm core market peak day design equal to 15,698 Dth. Capacity reserves for the supply portfolio that are released will be subject to the Company's Revenue Incentive Sharing Mechanism ("RISM").

C. AWARD OF PEAKING AND EXCESS CAPACITY RFP

19. The Company provided the results of the Request for Proposal ("RFP") for the peaking service, which encompassed the Company's 2.5% capacity reserve requirements along with an analysis of the bids received to the public parties. UGI Energy Services, LLC ("UGIES") was the only conforming bid received. Based on the analysis and consistent with the Company's primary firm requirements and least-cost fuel procurement obligations, the Parties agree that they will not oppose the Company's selection of the UGIES bid.

D. UGIES PEAKING CONTRACT PAYMENT SCHEDULE

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

E. LNG ALLOCATION

21. For the Carlisle/Mechanicsburg liquefied natural gas ("LNG") facilities in use for the winter of 2016-2017, the Company will be permitted to recover

through its PGC rates: (a) 58 percent of its facility costs; (b) 58 percent of the LNG commodity costs, for which the 58 percent is equal to the percentage share of peak day supply used by PGC customers in Carlisle/Mechanicsburg; and (c) the remaining 42 percent of LNG commodity volumes multiplied by the monthly published Platts Inside FERC Index for Texas Eastern Zone M-3 that the Company would have incurred during this time period. The Parties agree that the Company may seek to recover from non-competitive transportation customers costs not recovered through the PGC rate in the proposed Gas Delivery Enhancement Rider, pending Commission approval at Docket No. R-2017-2601900, and that the Parties will not seek to oppose such recovery from non-competitive transportation customers.

F. CAPACITY RELEASE PROPOSAL

22. The Parties agree that the Company may retain its current method of pricing capacity for large transportation customers in its capacity release program. The OCA withdraws its recommendation on the Company's capacity release program in this proceeding without prejudice to future proceedings. The Company reserves its right to argue in future proceedings that challenges to the Company's capacity release program should only be made in a Section 1308(d) base rate proceeding.

G. CONSOLIDATION OF THE PGC

23. The Company agrees that it will not propose a consolidated PGC rate with NGDC affiliates PNG and CPG in its 2018 PGC proceeding. The Parties agree to hold a collaborative in-person meeting at least 90 days prior to the Company's PGC pre-filing date to discuss ways to streamline the Company's future PGC proceedings.

H. TRUNCATION/REMAINING LIFE METHODOLOGY

24. In recognition of the recent Commission Order in the National Fuel Gas Distribution Corporation PGC proceeding at Docket No. R-2017-2582461, and in order to reduce rate volatility, the Company will determine quarterly PGC rate changes, beginning December 1, 2017, pursuant to the methodology approved by the Commission in the 2001 PGC proceeding at Docket No. R-00016376 (Opinion and Order entered Nov. 28, 2001), subject to any final order entered on appeal of the Commission's Order at Docket No. R-2017-2582461. The Company will keep in effect the current cap on quarterly rate changes as set forth in its tariff of 15% for September 1st, 25% for December 1st, 25% for March 1st, and 25% for June 1st.

[End direct quote from Stipulation in Settlement].

DISCUSSION

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

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

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

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

- (1) That the utility has fully and vigorously represented the interests of its ratepayers in proceedings before the Federal Energy Regulatory Commission (FERC);
- (2) That the utility has taken all prudent steps necessary to negotiate favorable gas supply contracts and to relieve the utility

from terms in existing contracts with its gas suppliers which are or may be adverse to the interest of the utility's ratepayers;

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

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

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

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

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

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

1. Whether UGI has fully and vigorously represented the interests of its ratepayers in proceedings before the Federal Energy Regulatory Commission. 66 Pa.C.S. §1308(a)(1).

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

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

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

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

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

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

. . . UGI's fuel procurement practices are designed to meet the natural gas requirements of its firm customers following a least cost procurement strategy, providing secure and reliable supplies and promoting price stability. UGI utilizes several risk management software applications, a diverse portfolio, and the resident knowledge of its employees to meet these objectives in a least cost manner.

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

3. Whether UGI has taken all prudent steps necessary to obtain lower cost gas supplies on both short-term and long-term bases both within and outside the

Commonwealth, including the use of gas transportation arrangements with pipelines and other distribution companies. 66 Pa.C.S. §1318(a)(3).

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

UGI reports as follows:

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

Pre-filing information, Section 5.

UGI implements its least cost procurement strategy while balancing reliability and price stability by managing a portfolio of supplies from a diverse set of sources. During the 12-month historic period, April 2016 through March 2017, UGI purchased its supplies, including those utilized for storage injection, from producers and marketers. These purchases were delivered via Firm Transportation on ANR, Columbia, Dominion, Texas Eastern and Transco; via direct supply from UGI Energy Services; or via peaking facilities directly connected to UGI's distribution system.

Supplies not selected in 2016-2017 fall outside two categories:

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

(2) UGI continually evaluates the market competitiveness of its term contracts. UGI regards term contracts as those having multiple months. The choice to maintain or terminate a contract is based on the performance of the supplier, price changes, fixed charges, location of the gas, capacity or cost changes on the connecting pipeline, the competitive nature of the commodity provisions, the ability to deliver the gas at pooling

receipt points and the supply purchase requirements. These contracts are subject to firm deliverability requirements because they supply gas to firm residential and commercial customers with no alternative energy source.

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

(Pre-filing information, Section 2).

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

4. The utility has not withheld from the market or caused to be withheld from the market any gas supplies which should have been utilized as part of a least cost fuel procurement policy. 66 Pa.C.S. §1318(a)(4).

UGI's evidence regarding this issue appears in Section 5 of the pre-filing information. No party has opposed the information submitted by UGI. This information adequately addresses and satisfies the statutory requirement.

5. Whether the utility has fully and vigorously attempted to obtain less costly gas supplies on both short-term and long-term bases from non-affiliated interests. 66 Pa.C.S. §1318(b)(1).

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

6. Whether each contract for the purchase of gas from its affiliated interest is consistent with a least cost fuel procurement policy. 66 Pa.C.S. §1318(b)(2).

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

7. Whether the utility or its affiliated interest has withheld from the market any gas supplies which should have been utilized as part of a least cost fuel procurement policy. 6 Pa.C.S. §1318(b)(3).

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

In addition to the statutory requirements addressed above, the following settlement terms have been agreed upon by the parties.

Design Day

UGI projected firm peak day demand of 843,347 Dth utilizing the same methodology used since the winter of 2014-2015. Under this methodology, the calculation of peak day demands is based on the highest firm sendout day of the most recent winter and extrapolated to design day conditions.

OCA argued that the Company's methodology could produce unreliable results and claimed that the UGI Companies should not calculate peak day demand based on a single day. Following negotiations, the OCA accepted UGI's design day forecasts, because alternate methodologies examined did not produce significantly different results.

Under the settlement, the Parties agreed that UGI will be permitted to use a design day figure of 843,347 as proposed by the Company. No other party challenged UGI's design day demand forecast.

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

Capacity Reserves

UGI proposed to maintain capacity in excess of its design firm peak demand in the amount of 2.5%. UGI explained that the 2.5% capacity reserve is necessary to provide reliable supply to the Company's customers in case of unexpected supply disruptions, particularly those that occur when a pipeline declares force majeure. As an example, UGI noted the recent unplanned outage due to a fire at Transcontinental Gas Pipe Line Company, LLC's Wharton storage facility.

I&E, while agreeing with UGI's proposal to maintain a 2.5% capacity reserve, initially recommended that any reserve generated by the release of the 2.5% capacity reserve be 100% credited back to PGC customers, rather than in accordance with the Company's established 75% PGC customer and 25% company revenue sharing mechanism (RISM).

Following negotiations, the parties agreed that UGI will be permitted to maintain, in its supply portfolio, a capacity reserve in the amount of 2.5% of its firm core market peak day design equal to 15,698 Dth. The parties also agreed that capacity reserves for the supply portfolio that are released will be subject to UGI's RISM. I&E stated, "ultimately the parties reached a compromise and I&E believes the agreed upon Settlement terms reflect the shared agreement among UGI and the Parties. I&E supports the Settlement terms." (I&E Statement in Support, p. 10).

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

Award of Peaking and Excess Capacity RFP

On April 26, 2017, UGI issued a request for proposal (RFP) for peaking supply service that provides the Company the option to call upon the service from zero up to a maximum daily quantity of 16,303 Dth per day on a daily or monthly basis for the period November 1, 2017 through October 31, 2020. UGI intends to award the contract to affiliate UGI Energy Services, LLC (UGIES), since it was the least cost bid that met all of the required reliability criteria. No parties submitted testimony opposing UGI's intention to accept UGIES's bid, and they agreed, as part of this settlement, not to oppose UGI's selection of the UGIES bid. I&E stated, “. . . the statutory Parties did not address this issue in their respective written testimonies. Nevertheless, this issue was discussed at length during settlement negotiations. . . . Ultimately, the Parties agreed to not oppose the awarding of the RFP as proposed by the Company.” (I&E Statement in Support, p. 11).

The settlement permits UGI to take peaking supply service from its affiliate, which offered the least cost bid meeting all of the required reliability criteria. This settlement term is reasonable and in the public interest.

UGIES Peaking Contract Payment Schedule

I&E proposed in this proceeding that UGI revise its payment schedule for its three peaking service contracts with UGIES to remove the November payment. It argued that the Company's usage data does not support the claims of winter usage levels in November, and that the peaking service contracts and RFPs could easily be modified to alter the payment terms. It was I&E's position that a shorter four-month payment schedule better aligned winter peak gas costs with actual revenues.

UGI disagreed with I&E's recommendation for several reasons. First, the Company's rates are calculated based on 12 months of costs and volumes. Accordingly, whether the peaking service demand charges are paid over five months, four months or one month, the PGC rate will remain the same. Second, moving the November payment to December would

increase the interest charged to the PGC due to December's higher interest weighting compared to November. UGI noted that moving the November payment to December would add approximately \$349,000 to the incremental interest for the past PGC year. Finally, UGI argued that the contracts cannot necessarily be easily modified, as UGIES does not have to agree to the change if requested.

After negotiations, I&E agreed that UGI shall not be required to modify its peaking service contract payment schedule. The parties agreed that maintaining the November payment will reduce interest costs for customers.

The settlement results in reduced costs to UGI's customers. This settlement term is reasonable, in the public interest and should be approved.

LNG Allocation

UGI has proposed that it be permitted to recover all of the costs for the Carlisle and Mechanicsburg temporary LNG facilities through its PGC rates. It explained that it has successfully used temporary LNG facilities in targeted applications to maintain reliable service to customers during pipeline reinforcement and betterment projects and during the winter period. The OCA averred that a portion, but not all, of the LNG costs may be recovered through PGC rates. OCA proposed to allocate the LNG Supply costs between PGC and transportation customers proportionate to the annual usage of PGC and transportation customers in the Carlisle and Mechanicsburg areas. UGI argued, in response, that the cost of temporary LNG supply and storage are "natural gas costs" under 66 Pa.C.S. § 1307(f) and, therefore, are fully recoverable through PGC rates.

Following negotiations, the settlement provides that for the Carlisle/Mechanicsburg LNG facilities in use for the winter of 2016-2017, the Company will be permitted to recover through PGC rates: (a) 58% of its facility costs; (b) 58% of the LNG commodity costs, for which the 58% is equal to the percentage share of peak day supply used by PGC customers in Carlisle/Mechanicsburg; and (c) the remaining 42% of LNG commodity volumes multiplied by the monthly published Platts Inside Index for Texas Eastern Zone M-3

that the Company would have incurred during this time period. The parties further agree that UGI may seek to recover from non-competitive transportation customers costs not recovered through the PGC rate in the proposed Gas Delivery Enhancement Rider, pending Commission approval at Docket No. R-2017-2601900, and that the parties will not seek to oppose such recovery from non-competitive transportation customers. UGI states, “. . . this settlement term is a rational compromise of the Parties’ positions.” (UGI statement in support, p. 9). The OCA states:

Through testimony and settlement discussions, the parties developed this cost sharing proposal which assigns the appropriate proportion of LNG facility costs to PGC customers based on this group’s share of supply and facility costs during the applicable time period. As such, this settlement provision addresses the OCA’s concerns regarding the Company’s recovery of LNG facility costs in the Carlisle/Mechanicsburg areas.

(OCA statement in Support, pp. 4-5).

This settlement term reduces the amount UGI is permitted to recover from customers through PGC rates, thereby benefitting those customers. This term was developed following extensive negotiation by the parties, is reasonable, in the public interest and should be approved.

Capacity Release Proposal

The OCA argued that the costs associated with the capacity acquired to serve large transportation customers are initially included in PGC rates and then, when capacity is released to a large transportation customer, UGI assesses the customer a charge that is credited to the PGC. OCA argued that UGI’s established method for calculating the charge paid by large transportation customers is unreasonable. OCA recommended that all of UGI’s capacity resources be included in determining the charges to be assessed to large transportation customers for released capacity.

UGI disagreed with the OCA for several reasons. First, the cost of capacity charged to large transportation customers is equitably based on the services used by those rate classes. Second, OCA’s proposal would require renegotiation of large transportation service

agreements. Third, increasing capacity charges could result in rate XD customers with competitive alternatives leaving UGI's distribution system. Finally, UGI argued that this proceeding is not the appropriate forum for the OCA to contest the capacity release program.

Following negotiations, the parties agreed that UGI may retain its current method of pricing capacity for large transportation customers in its capacity release program. The OCA agreed to withdraw its recommendation on the Company's capacity release program in this proceeding without prejudice to future proceedings.

The settlement preserves UGI's current method for price capacity without prejudice to its and the OCA's positions on this issue in future proceedings. This settlement term is reasonable and in the public interest.

Consolidation of the PGC

UGI requested in this proceeding Commission approval to make a consolidated PGC filing with its affiliates, CPG and PNG, in 2018. It argued that consolidating the PGC filings would produce efficiencies in supply administration and the annual PGC proceedings and would be a further step toward harmonization of the three affiliated companies in preparation for eventual merger of the corporations.

I&E agreed with UGI's proposal, but recommended that the combined 2018 PGC filing contain both the individual and combined PGC rates to be proposed in that filing. The OCA argued that the filings and PGC rates of the three companies should not be consolidated. It proposed that the companies provide a detailed cost analysis showing that the benefits of consolidation could exceed the increase in costs. The OSBA also opposed UGI's consolidation proposal and questioned whether it would require affiliated interest agreements and whether this issue is properly addressed in a PGC proceeding.

As part of the settlement, UGI agreed that it will not propose a consolidated PGC rate with its CPG and PNG affiliates in its 2018 PGC proceeding. The parties have agreed to

hold a collaborative in-person meeting at least 90 days prior to UGI's PGC pre-filing date to discuss ways to streamline the company's future PGC proceedings.

The settlement on this issue addresses the concerns of the various parties and provides an opportunity for the parties to work together to find a way to make future PGC filings simpler and more efficient. Accordingly, this settlement term is reasonable and in the public interest and should be approved.

Truncation/Remaining Life Methodology

During the course of this proceeding, the Commission entered its order in National Fuel Gas Distribution Corporation's (NFGD) 2017 PGC proceeding at Docket No. R-2017-2582461 (Order entered July 12, 2017) (*NFGD 2017*). In *NFGD 2017*, the Commission rejected NFGD's use of its truncation methodology to calculate the C-Factor component of its PGC rates. The Commission reasoned, "the truncation methodology did not result in the PGC rate tracking the actual cost of gas more closely, did not lead to a more accurate PTC, and did not send proper price signals to enable natural gas customers to make intelligent and informed purchasing decisions in the competitive marketplace." *NFGD 2017*, at pp. 25-26.

UGI has been using the truncation methodology, which it calls the remaining life methodology, to calculate the C-Factor component of its PGC rates since its 2014 PGC proceeding at Docket No. R-2014-2420276 (Order entered October 23, 2014). In recognition of the Commission's decision in *NFGD 2017*, the parties have agreed that UGI will determine quarterly PGC rate changes, beginning December 1, 2017, pursuant to the methodology approved by the Commission in the 2001 proceeding at Docket No. R-00016376 (Opinion and Order entered November 28, 2001), subject to any final order entered on appeal of the Commission's decision in *NFGD 2017*. UGI used the 2001 methodology until it adopted the remaining life/truncation methodology in 2014. UGI will keep in effect the current cap on quarterly rate changes as contained in its tariff of 15% for September 1, 25% for December 1, 25% for March 1, and 25% for June 1.

Although this issue was not raised by UGI in its filing in this proceeding, it was addressed by the parties due to the Commission’s issuance of its decision in *NFGD 2017*. UGI states, “[t]hese settlement terms address the rate volatility that can result from the truncation methodology and is consistent with the Commission’s recent decision in *NFGD 2017*. Thus, the settlement is reasonable and in the public interest. . . .” (UGI Statement in Support, p. 14). I&E states, “[u]ltimately the parties agreed to a settlement that included the 15% and 25% caps on the quarterly PGC rate changes, which are also included in the settlement, to protect against rate volatility.” (I&E Statement in Support, p. 24).

With this settlement term, UGI acknowledges the Commission’s most recent position on this issue and has agreed to revise its methodology for calculating the C-Factor component of its PGC rate accordingly. This term is reasonable and in the public interest.

Other Terms

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

¹This Settlement is conditioned upon the Commission’s approval of the terms and conditions contained herein without modification, addition or deletion. If the Commission modifies the Settlement or fails to approve, by December 1, 2017, the terms and conditions of this Settlement, then any of the Parties may elect to withdraw from this Settlement and may proceed with litigation. In such event, this Settlement shall be void and of no effect. Such election to withdraw must be made in writing, filed with the Secretary of the Commission and served upon all Parties within five (5) business days after the entry of an order modifying or disapproving the Settlement.

If the Commission modifies or does not approve the Settlement and the proceedings continue to hearings on the issues that are the subjects of this Settlement, the Parties reserve their respective rights to present additional testimony and to conduct full cross-examination, briefing and argument on these subjects.

Except as otherwise specifically provided in this Settlement, this Settlement is proposed by the Parties to settle all issues in the instant proceeding and is made without any admission against, or prejudice to: (1) any position that any Party may adopt during any subsequent litigation of this proceeding if the Commission disapproves or modifies this Settlement; or (2) any position that any Party may adopt in any other proceeding.

It is understood and agreed among the Parties that this Settlement is the result of compromises by all Parties and does not necessarily represent the position(s) that would be advanced by any party in the event this proceeding were to be litigated fully.

This Settlement is being presented only in the context of this Section 1307(f) proceeding in an effort to resolve certain outstanding issues in a manner that is fair and reasonable. Except as otherwise specifically provided in this Settlement, the Settlement reflects compromises on all sides, and is presented without prejudice to any position that any of the parties may have advanced and without prejudice to the positions that any of the parties may advance in the future on the merits of the issues.

With respect to the overall settlement, UGI states, “The Settlement was achieved only after considerable investigation of UGI’s gas procurement practices, through both discovery and submission of testimony by a number of parties. The settlement, if approved by the ALJ and the Commission, will reduce the amount of expense and effort that will be required by the parties and the Commission to bring this matter to a conclusion” (UGI Statement in Support, p. 14-15). It continues, “[e]ach of the terms set forth in the Settlement resolves a dispute fairly and without the expense and uncertainty associated with litigation. UGI accordingly fully supports the Settlement and respectfully requests Administrative Law Judge Steven K. Haas and the Commission to approve the Settlement without modification.” (UGI Statement in Support, p. 15).

I&E states, “the Parties have carefully discussed and negotiated all issues raised in this proceeding I&E represents that the Settlement maintains the proper balance of the interests of all parties.” (I&E Statement in Support, p. 25). The OCA stated, “[t]he settlement resolves all issues regarding UGI Utilities, Inc. – Gas Division’s annual reconciliation of purchased gas cost rates. It is the OCA’s position that the proposed settlement is in the public interest.” (OCA Statement in Support, p. 1). The OSBA states, “[f]or the reasons set forth in the *Stipulation*, as well as the additional factors that are enumerated in this statement, the OSBA supports the proposed *Stipulation* and respectfully requests that the ALJ and the Commission approve the *Stipulation* in its entirety.” (OSBA Statement in Support, p. 5). Finally, UGIII states, “[t]he Settling Parties have thus reached an amicable solution to this dispute as embodied in the Settlement. Approval of the Settlement will permit the Commission and the Settling Parties to avoid incurring the additional time, expense and uncertainty of further litigation of the issues in this proceeding.” (UGII Statement in support, pp. 4-5).

For all of the reasons set forth above, the proposed rates under the *Stipulation* are just and reasonable because the utility is pursuing a least cost fuel procurement policy, consistent

The Parties acknowledge and agree that this Settlement shall have the same force and effect as if the Parties had fully litigated this proceeding with regard to the historic period ended March 31, 2017.

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

with the utility's obligation to provide safe, adequate and reliable service to its customers. This decision recommends approval of the Stipulation in Settlement of Section 1307(f) Rate Investigation as in the public interest.

CONCLUSIONS OF LAW

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

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

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

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

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

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

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

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

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

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

11. The Stipulation in Settlement of Section 1307(f) Rate Investigation is in the public interest.

ORDER

THEREFORE,

IT IS RECOMMENDED:

1. That the Settlement among UGI Utilities, Inc. – Gas Division, the Pennsylvania Public Utility Commission’s Bureau of Investigation and Enforcement, the Office of Consumer Advocate, the Office of Small Business Advocate and the UGI Industrial Intervenors in the above-captioned case, filed at Docket Nos. R-2017-2602638, C-2017-2603457 and C-2017-2604098, is approved without modification.

