

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2017-2602633
Office of Consumer Advocate	:	C-2017-2603489
Office of Small Business Advocate	:	C-2017-2604132
	:	
v.	:	
	:	
UGI Penn Natural Gas, Inc. § 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 \$4.2459 per Mcf. The rate proposed by the company and agreed to in the settlement is unchanged at \$4.2459 per Mcf.

HISTORY OF THE PROCEEDING

On May 1, 2017, UGI Utilities, Inc. - Gas Division (UGI), UGI Central Penn Gas, Inc. (CPG) and UGI Penn Natural Gas, Inc. (PNG or the Company) (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 PNG filing at R-2017-2602633 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.

PNG's definitive PGC filing was made on June 1, 2017. The proposed PGC tariff has a proposed 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 the UGI Industrial Intervenors (UGIII). At the Prehearing Conference, PNG introduced UGI Penn Natural Gas, Inc. Exhibit No. 1, consisting of that company's Book 1 and Book 2 filings.

The parties agreed upon a litigation schedule, which was set forth and adopted in 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 then 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.

On June 19, 2017, a formal complaint was filed by Ronald J. Serafin. In his complaint, Mr Serafin requested that no rate increase be approved. By letter dated, June 30, 2017, PNG indicated that, since the complaint was associated with a rate proceeding, it would not be filing an answer.

Prior to the evidentiary hearing on July 25, 2017, PNG, I&E, OCA and OSBA 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 PNG's Exhibit No. 1, consisting of PNG's preliminary PGC data and exhibits (Book1) and its definitive PGC filing (Book 2). All parties waived cross-examination of all witnesses.

PNG, I&E, OCA and OSBA submitted a Stipulation in Settlement of Section 1307(f) Rate Investigation on August 11, 2017. A copy of the settlement was transmitted to Complainant Ronald Serafin via first Class Mail on August 11, 2017. Mr. Serafin was not a signatory to the settlement.

FINDINGS OF FACT

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

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

3. The Commission's Bureau of Investigation and Enforcement (I&E) serves as the prosecutory bureau for purposes of representing the public interest in ratemaking and service matters before the Office of Administrative Law Judge and enforcing compliance with

the state and federal motor carrier safety and gas safety laws and regulations. *Implementation of Act 129 of 2008 Organization of Bureaus and Offices*, Docket No. M-2008-2071852 (Order entered August 11, 2011).

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

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

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

[Begin direct quote from Stipulation in Settlement]

A. DESIGN DAY

16. The Parties agree that the Company will reduce its design day figure by 7,483 Dth, resulting in a peak day design requirement of 646,023 Dth.

B. CAPACITY RESERVES

17. 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 7,379 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

18. 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, which shall reflect the revised peak day requirements and capacity reserve agreed to by the Parties in this proceeding. PNG initially proposed to acquire 68,620 Dth of delivered supply service. Pursuant to Paragraphs 16 and 17, *supra*, the amount of service will be reduced to 60,949 Dth.

D. UGIES PEAKING CONTRACT PAYMENT SCHEDULE

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

E. CAPACITY RELEASE PROPOSAL

20. The Parties agree that no modification is required to the Company's capacity release proposal pending Commission approval at Docket No. R-2016-2580030. The Company agrees it will not acquire capacity for the capacity release program in excess of participating transportation customer needs.

F. CONSOLIDATION OF THE PGC

21. The Company agrees that it will not propose a consolidated PGC rate with NGDC affiliates UGI 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.

G. RECOVERY OF GAS SUPPLY SUBSCRIPTION COSTS

22. The Parties agree that the Company may recover through the PGC rate the cost of its subscription to the Intercontinental Exchange and Platts Gas Daily.

H. TRUNCATION/REMAINING LIFE METHODOLOGY

23. 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, after extensive discovery and negotiations, have signed an agreement that fully resolves all outstanding issues in this proceeding.

In addition to the obvious benefit 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 PNG 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 PNG 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 interests 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 PNG 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 PNG 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 PNG 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 PNG by its interstate pipeline suppliers. A listing of FERC proceedings is included in the pre-filing information at Section 3. PNG states:

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

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

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

2. Whether PNG 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 PNG 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, PNG states:

PNG'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. PNG 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 PNG adequately addresses and satisfies the statutory requirement.

3. Whether PNG 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 PNG's pre-filing information.

PNG reports as follows:

PNG'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.

PNG 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, PNG purchased its supplies, including those utilized for storage injection, from producers and marketers. These purchases were delivered via FT on Columbia, Tennessee and Transco; via direct supply from UGI Energy Services; or via peaking facilities and local production directly connected to PNG's distribution system.

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

(1) Each month, PNG 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. PNG 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) PNG continually evaluates the market competitiveness of its term contracts. PNG 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.

PNG'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 PNG's control.

Pre-filing information, Section 2.

The information submitted by PNG 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).

PNG's evidence regarding this issue appears in Section 5 of the pre-filing information. No party has opposed these statements, which adequately address and satisfy the statutory requirements.

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

PNG's evidence in support of this finding is set forth in Sections 1, 2 and 5 of the pre-filing information. PNG'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 PNG 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 PNG's supply arrangements with its affiliated suppliers to determine whether they satisfy PNG'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 PNG's contractual relationships with its affiliates are consistent with the standards set forth in 66 Pa.C.S. § 1318(b)(2). The information submitted by PNG 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).

PNG's evidence in support of this finding is set forth in Section 5 of the pre-filing information. There is no evidence indicating that PNG 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 PNG. The information submitted by PNG 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

PNG projected firm peak day demand of 653,506 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 send out 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. OCA recommended using a methodology based on the coldest 30 days from the winter of 2016-2017, which would reduce PNG's firm peak day demand requirements by 20,426 Dth.

OCA argued that PNG's approach was inconsistent with industry standards, did not consider energy efficiency or customer conservation efforts, and included an inappropriate day-of-the-week adjustment. OCA subsequently adjusted its recommended reduction to 11,643 Dth.

Under the settlement, the Parties agreed that PNG will reduce its design day figure by 7,483 Dth, resulting in a peak day design requirement of 646,023. PNG stated, "[t]he settlement provides for a compromise of PNG's and the OCA's positions without adopting a specific methodology for determining peak day capacity. This allows both PNG and the OCA to present their respective methodologies in future proceedings, while at the same time providing for a compromise in this proceeding." (PNG Statement in support, p. 3). I&E concluded, "[t]he final negotiated design day figure is consistent with the levels advanced on the evidentiary record and reflect a full and fair compromise of the design day related issues raised by the parties and, accordingly, is in the public interest." (I&E statement in Support, pp. 6-7). OCA stated, "[t]his settlement provision addresses the OCA's concerns and results in a more accurate design day projection." (OCA Statement in support, p. 3).

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

Capacity Reserves

PNG proposed to maintain capacity in excess of its design firm peak demand in the amount of 2.5%. PNG 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, PNG 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 PNG'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 PNG 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 PNG 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 7,379 Dth. The parties also agreed that capacity reserves for the supply portfolio that are released will be subject to PNG'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 PNG and the Parties. I&E supports the Settlement terms." (I&E statement in support, p. 9).

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

Award of Peaking and Excess Capacity RFP

On April 26, 2017, PNG issued a request for proposal (RFP) for a one year delivered supply service that provided the Company the option to call on the service from zero up to the maximum daily quantity of 68,620 Dth per day on a daily or monthly basis for the period November 1, 2017 through October 31, 2018. PNG specified, among other things, that the proposals must have supplies that are asset-backed, have a primary firm delivery point into the Company's distribution system, have enhanced force majeure provisions, and contain a contract extension provision. The only conforming bid received by PNG was from UGI Energy Services, LLC (UGIES).

The OCA proposed that PNG reduce the amount of delivered supply the Company acquires from UGIES by 20,426 Dth per day, consistent with its recommended reduction of 20,4260 Dth in the company's peak day demand forecast.

Under the settlement, the parties agreed to not oppose the Company's selection of the UGIES bid. Further, although PNG initially proposed to acquire 68,620 Dth of delivered supply service, the amount of service will be reduced to 60,949 Dth. The supply service acquired from UGIES will be adjusted to conform to the peak day demands agreed to in the settlement.

I&E stated, "[t]he parties agreed to the settlement terms through negotiations and I&E supports the terms. I&E also believes that the agreed upon terms are consistent with prior Commission decisions, and provides guidance and stability to PNG, which are consistent with protecting the public interest." (I&E Statement in Support, p. 11).

The settlement permits PNG to take delivered supply service from its affiliate while addressing the parties' concerns about the quantities allowed under the contract. This settlement term is reasonable and in the public interest.

UGIES Peaking Contract Payment Schedule

I&E proposed in this proceeding that PNG 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.

PNG 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. PNG noted that moving the November payment to December would add approximately \$130,000 to the incremental interest for the past PGC year. Finally, PNG 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 PNG 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. I&E stated, “. . . with due consideration of all of the above [negotiations], I&E believes the agreed upon settlement terms reflect the shared agreement among PNG and the parties and I&E supports the settlement terms.” (I&E Statement in Support, p. 13).

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

Capacity Release Proposal

OCA noted that in PNG’s pending rate case at Docket No. R-2016-2580030, PNG proposed to implement a capacity release program for Rate DS and LFD transportation customers whereby PNG would include, in the design of its capacity portfolio, the projected daily demands of: (1) all Rate DS customers up to their contracted maximum daily quantity (MDQ); and (2) Rate LFD customers who voluntarily participate in the program, up to their contracted daily firm requirement (DFR). PNG would then release capacity to the Rate DS and Rate LFD customers (or their suppliers) in an amount equal to their MDQ or DFR. OCA had a concern about the potential for PNG to acquire capacity in excess of the Rate DS and LFD customers’ subscribed requirements. It recommended that the costs associated with the unassigned capacity not be recovered through PGC rates. PNG stated that the capacity release program would not result in capacity for Rate DS and LFD customers in excess of the amount subscribed. It stated the Company will evaluate the needs of its Rate DS and LFD customers on an annual basis and acquire capacity accordingly.

Under the settlement, the parties agreed that PNG would not have to change its capacity release program proposal pending Commission approval at Docket No. R-2016-

2580030. PNG agreed that it will not acquire capacity for the capacity release program in excess of participating transportation customer needs. OCA indicated it will review this item in next year's PGC proceeding to verify that PNG did not, in fact, acquire excess capacity that would be the responsibility of PGC customers.

The settlement permits PNG to maintain its capacity release program proposal while providing for a review, by the parties, of the amount of excess capacity acquired by the company in next year's PGC proceeding. The resolution of this issue is reasonable and in the public interest.

Consolidation of the PGC

PNG requested in this proceeding Commission approval to make a consolidated PGC filing with its affiliates, UGI and CPG, 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 PNG'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 PNG'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, PNG agreed that it will not propose a consolidated PGC rate with its UGI and CPG affiliates in its 2018 PGC proceeding. The parties have agreed to hold a collaborative in-person meeting at least 90 days prior to PNG'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.

Recovery of Gas Supply Subscription Costs

PNG sought to recover the costs of its subscriptions to the Platts Gas Daily and the Intercontinental Exchange (ICE) through its PGC rates. ICE is utilized by PNG to validate that supplier offers are priced at market and to confirm invoice pricing and counterparty discrepancies. PNG further explained that having access to Platts pricing is important in ensuring the accuracy of PNG's supplier invoices, since many of PNG's service contracts are priced at a Platts Gas Daily Index. No party challenged or opposed PNG's proposal to recover these subscription costs through PGC rates.

The settlement confirms and memorializes PNG's ability to recover through PGC rates the costs of its subscriptions to Platts Gas Daily and ICE. As the subscriptions are important to PNG in its procurement of gas supplies to provide service to its customers, this settlement term is reasonable and in the public interest.

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.

PNG 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-2014-2420273 (Order entered October 23, 2014). In recognition of the Commission's decision in *NFGD 2017*, the parties have agreed that PNG will determine quarterly PGC rate changes, beginning December 1, 2017, pursuant to the methodology approved by the Commission in the 2001 UGI 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*. PNG used the 2001 methodology until it adopted the remaining life/truncation methodology in 2014. PNG 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 PNG in its filing in this proceeding, it was addressed by the parties due to the Commission's issuance of its decision in *NFGD 2017*. PNG 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. . . ." (PNG Statement in Support, p. 13). 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. 20).

This settlement term acknowledges the Commission's most recent position on this issue and PNG has agreed to revise its methodology for calculating the C-Factor component of its PGC rates in this proceeding. As such, this settlement term is reasonable and in the public interest.

Disposition of Ronald Serafin Formal Complaint

On June 19, 2017, a formal complaint was filed by Ronald Serafin at Docket No. C-2017-2611386. In his complaint, Mr. Serafin requested that no rate increase be approved. Mr. Serafin was provided a copy of the Stipulation in Settlement, via First Class Mail, on

August 11, 2017. In addition, an order was issued on August 31, 2017, which directed Mr. Serafin to file any objections to the proposed Settlement in writing and serve copies upon the undersigned presiding officer and the parties named on the service list, not later than 4:00 p.m. on Monday, September 11, 2017. The order apprised him of his opportunity to file objections to the Settlement. Mr. Serafin did not file or serve the undersigned presiding officer with any objection to the Stipulation in Settlement. By providing Mr. Serafin an opportunity to be heard, his due process rights have been fully protected. *Schneider v. Pa. Pub. Util. Comm'n*, 83 Pa.Cmwlth. 306, 479 A. 2d 10 (1984).

Section 703(a) of the Code, 66 Pa.C.S.A. § 703, provides for the dismissal of any complaint without a hearing, if in the Commission's opinion, a hearing is not necessary in the public interest. Here, Mr. Serafin did not respond to the proposed Settlement Petition by September 11, 2017, as instructed by the order dated August 31, 2017. Therefore, a hearing on his formal complaint is not necessary 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.

With respect to the overall settlement, PNG states, “The Settlement was achieved only after considerable investigation of PNG’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” (PNG Statement in Support, p. 13). 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. PNG accordingly fully supports the Settlement and respectfully requests Administrative Law Judge Steven K. Haas and the Commission to approve the Settlement without modification.” (PNG Statement in Support, p. 13).

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. 23). The OCA stated, “[t]he settlement resolves all issues regarding UGI Penn Natural Gas, Inc’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).

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

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.

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 Penn Natural Gas, Inc. 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 Penn Natural Gas, Inc'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 Penn Natural Gas, Inc. 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 Penn Natural Gas, Inc. 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 Penn Natural Gas, Inc. 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 Penn Natural Gas, Inc. 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 Penn Natural Gas, Inc. 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 Penn Natural Gas, Inc. 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 Penn Natural Gas, Inc. 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 Penn Natural Gas, Inc., the Pennsylvania Public Utility Commission's Bureau of Investigation and Enforcement, the Office of Consumer Advocate and the Office of Small Business Advocate in the above-captioned case, filed at

Docket Nos. R-2017-2602633, C-2017-2603489 and C-2017-2604132, is approved without modification.

2. That on not less than one day's notice of the final Commission order approving the Settlement, UGI Penn Natural Gas, Inc. shall file tariff supplements implementing rates consistent with the proposed rates contained in the Settlement, as modified to reflect updates and tariff modifications traditionally performed as part of UGI Penn Natural Gas, Inc's. December 1st PGC compliance filings, to become effective on and after December 1, 2017.

3. That, upon the filing of the tariff supplements described in Paragraph 2 above, the complaint filed by the Office of Small Business Advocate in this proceeding at Docket No. C-2017-2604132 be marked satisfied and closed.

4. That, upon the filing of the tariff supplements described in Paragraph 2 above, the complaint filed by the Office of Consumer Advocate in this proceeding at Docket No. C-2017-2603489 be marked satisfied and closed.

5. That, upon filing of the tariff supplements described in Paragraph 2 above the complaint filed by Ronald Serafin in this proceeding at Docket No. C-2017-2611386 be marked closed.

6. That upon acceptance and approval by the Commission of the tariff supplement and supporting data filed by UGI Penn Natural Gas, Inc. as being consistent with this Order and the Stipulation in Settlement of Section 1307(f) Rate Investigation, pursuant to 66 Pa.C.S.A. § 1307(f), the inquiry and investigation at Docket No. R-2017-2602633 be terminated.

Dated: September 11, 2017

/s/
Steven K. Haas
Administrative Law Judge