

**PENNSYLVANIA PUBLIC UTILITY COMMISSION  
HARRISBURG, PENNSYLVANIA 17105**

**Pennsylvania Public Utility  
Commission, et al., UGI Central  
Penn Gas Inc.; UGI Penn Natural  
Gas, Inc.; and UGI Utilities Inc –  
Gas Division**

**Public Meeting: October 5, 2017  
2602627-ALJ; 2602633-ALJ; and  
2602638-ALJ**

**Docket Nos. R-2017-2602627 et al.;  
R-2017-2602633, et al.; and  
R-2017-2602638**

**STATEMENT OF VICE CHAIRMAN ANDREW G. PLACE**

Before us for consideration are the annual purchased gas cost tariffs (PGC) pursuant to 52 Pa. Code §§53.64 and 53.65 of UGI Central Penn Gas, Inc. (CPG), UGI Penn Natural Gas, Inc. (PNG or the Company) and UGI Utilities, Inc. - Gas Division (UGI), (collectively, UGI Companies), as amended by the Stipulation in Settlement of Section 1307(f) Rate Investigation (Settlement) filed August 11, 2017. The Settlement provisions in these cases were submitted to Administrative Law Judge (ALJ) Steven K. Haas for review and approval. The ALJ recommended approval of the annual purchased gas cost tariff filing as amended by the Settlement. I concur.

While I approve the Settlements in the above-captioned cases, I wish to draw attention to several issues which I request that the parties more thoroughly address in the future.

Firstly, each of these proceedings demonstrate rather high under-collections, which resulted in E-factors which were approximately 7.3%, 10.9%, and 5.9%, for UGI, CPG, and PNG, respectively. Given the elimination of migration riders, it is imperative that the UGI Companies reduce these E-factors so that proper cost allocation is achieved. Otherwise, retail choice decisions are unreflective of actual market prices.

Secondly, I am concerned with the amount of capacity being purchased, how supply is covered, and the methods used to distribute gas to the Companies' new and expanding load. More specifically, UGI is reserving a 2.5% reserve margin over and above the 30-year coldest day forecast methodology, as adjusted by wind adders. Additionally, the highest sendout ever for CPG was 186.6 MDth/d on February 19, 2015. While the design requirements for CPG were slightly reduced in the Settlement to 217.834 MDth/d – this remains a margin above the historical high of 16.7%. Similarly, for PNG, the design requirement was slightly reduced by the Settlement to 653.693 MDth/d with the highest sendout for this Company being 490.1 MDth/d – a 33% margin above historical maximum sendout. For UGI, the design day requirement was 859.0 MDth per day with the highest sendout for this Company being 709.9 MDth/d – again, a margin of 21% above historical maximum sendout. The significant differences between actual peak day sendout and design day requirements in the Settlement raises the question of whether this level of peak day procurement is necessary. Moving forward, I request that the parties examine the differences, and provide an explanation for the peak day requirements and the corresponding costs associated with these procurements.

As noted above, I am also concerned about the method of procurement for these consistently increasing peak supply requirements. UGI repeatedly has issued Requests for Procurement (RFPs) under the same basic structure, with the same inherent result – a contract with its affiliate. It is unclear, from the record, whether this method is least cost, given the ability for upstream contracts to be released. Released capacity funds acquired can be netted against the cost of these storage and/or transportation contracts. To the extent no storage or transportation contracts exist, I ask that UGI more thoroughly work with suppliers to identify a means of improving the competitive structure of these RFPs.

Lastly, as demonstrated in the record from testimony of one of the Company's witnesses,<sup>1</sup> UGI Companies, have utilized temporary Liquefied Natural Gas (LNG) supplies to support their distribution systems. PNG has also used LNG to maintain service to customers taking service from low pressure mains during high demand, pressure reducing, severe cold weather conditions. Thus, LNG is being used to "support" the distribution system – not to "supply" the distribution system. In short, LNG is becoming synonymous with distribution pipe. This situation poses the question of whether such costs should be allocated as distribution costs recoverable in distribution rates, or whether these costs should be allocated as supply costs recoverable in PGC rates. UGI's witness indicated that the Company will be using LNG to reinforce the UGI Companies' systems over the next several winters. It is the Company's position that all costs associated with the provision of LNG to ensure continued service during system improvement projects may be recovered as a natural gas cost as defined in 66 Pa. Code § 1307(h). I want to make clear that my approval of these Settlements does not endorse this position beyond that committed to in these Settlements, which are limited to the 2016-2017 winter for UGI.

I am grateful for the efforts of the Office of Consumer Advocate to curb these peak day purchase requirements, but ask that further scrutiny of these contracting practices be pursued in future 1307(f) filings for the Companies. When adding together these elements – high contract amounts, expensive peaking contracts, and the cost of LNG systems distributed along the distribution system – it raises the question as to whether or not some of this new load is truly covering its incremental costs.

Lastly, in the filing, the UGI Companies' Lost and Unaccounted for Gas percentages were substantively below baseline and continuing to trend down. I commend the Companies for these results and note the contribution of accelerated pipeline replacement in contributing to this improved performance.

**DATE: October 5, 2017**



**Andrew G. Place, Vice Chairman**

---

<sup>1</sup> DIRECT TESTIMONY OF ANGELINA M. BORELLI, UGI STATEMENT No. 2