



17 North Second Street
12th Floor
Harrisburg, PA 17101-1601
717-731-1970 Main
717-731-1985 Main Fax
www.postschell.com

Devin Ryan

dryan@postschell.com
717-612-6052 Direct
717-731-1981 Direct Fax
File #: 173594

August 10, 2018

VIA ELECTRONIC FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

**Re: Pennsylvania Public Utility Commission, et al. v. UGI Penn Natural Gas, Inc.
Docket Nos. R-2018-3001632, C-2018-3001822 and C-2018-3001827**

Dear Secretary Chiavetta:

Enclosed please find the Stipulation in Settlement of Section 1307(f) Rate Investigation in the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'DR', with a long horizontal line extending to the right.

Devin Ryan

DR/skr
Enclosure

cc: Certificate of Service
Honorable Steven K. Haas
Honorable Andrew M. Calvelli

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	Docket Nos. R-2018-3001632
Office of Consumer Advocate	:	C-2018-3001822
Office of Small Business Advocate	:	C-2018-3001827
v.	:	
UGI Penn Natural Gas, Inc. § 1307(f)	:	

**STIPULATION IN SETTLEMENT OF
SECTION 1307(f) RATE INVESTIGATION**

TO ADMINISTRATIVE LAW JUDGES STEVEN K. HAAS AND ANDREW CALVELLI:

UGI Penn Natural Gas, Inc. (“PNG” or the “Company”), the Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), and the Office of Consumer Advocate (“OCA”), all Parties in the above-captioned proceeding, hereby join in this Stipulation in Settlement of Section 1307(f) Rate Investigation (“Settlement”). The Office of Small Business Advocate (“OSBA”), the only other party to this proceeding, has advised the Company that it does not oppose this Settlement and that it will be filing a Statement of Non-Opposition.

The Parties request that Administrative Law Judges Steven K. Haas and Andrew Calvelli (the “ALJs”) and the Commission: (1) approve the terms of this Settlement; (2) authorize PNG to file a tariff supplement for service rendered on or after December 1, 2018, that implements, subject to updates and tariff modifications traditionally performed on December 1, the PGC rate of \$3.7106/Mcf; and (3) make all associated findings required by Sections 1307(f) and 1318 of the Public Utility Code, 66 Pa. C.S. §§ 1307(f), 1318. In addition to addressing the required findings required by Sections 1307(f) and 1318 of the Public Utility Code, 66 Pa. C.S. §§ 1307(f), 1318, this Settlement addresses the concerns expressed and recommendations made by

Vice Chairman Andrew G. Place in his statement accompanying the Commission's order approving the settlement of the Company's 2017 1307(f) proceeding at Docket Nos. R-2017-2602627, et al. (Oct. 5, 2017) ("Vice Chairman Place Statement").

PNG's Statement in Support of the Settlement is attached as **Appendix A**. All other Parties' Statements in Support are being separately filed with the Commission.

I. BACKGROUND

1. PNG is a natural gas distribution company ("NGDC") 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, as well as 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. On May 1, 2018, the Company made its PGC 30-day pre-filing with the Commission in compliance with Section 1307(f) of the Public Utility Code, 66 Pa. C.S. § 1307(f), and the Commission's regulations at 52 Pa. Code §§ 53.64, 53.65.

3. On May 11, 2018, the OCA filed a Notice of Appearance, Formal Complaint, and Public Statement. Further, the OSBA filed a Notice of Appearance, Formal Complaint, Public Statement, and Verification.

4. On May 15, 2018, I&E filed a Notice of Appearance.

5. On May 18, 2018, the Company filed letters advising that it would not be filing Answers to the OCA's and OSBA's Formal Complaints, in accordance with the provisions of 52 Pa. Code § 5.61(d).

6. On June 1, 2018, the Company filed with the Commission its definitive PGC filing, including supporting information required by the Commission's regulations, the

Company's direct testimony and exhibits, and the Company's Pro Forma Tariff Supplement reflecting actual and projected changes in natural gas costs.

7. In its PGC filing, PNG proposed to implement a PGC rate of \$3.7106/Mcf for Rate Schedules R, N, and GL, effective December 1, 2018, which is a \$0.2710/Mcf decrease from the current PGC rate.

8. On June 21, 2018, a Prehearing Conference was held before the ALJs. At the Prehearing Conference, PNG introduced PNG Exhibit 1 consisting of the Company's Book 1 and Book 2 filings. Copies were provided to the court reporter and the ALJs, and PNG Exhibit 1 was marked for identification.

9. On June 26, 2018, the ALJs issued a Scheduling Order that adopted the procedural schedule proposed by the Parties and consolidated the PGC proceedings of UGI Utilities, Inc. ("UGI"), PNG, and UGI Central Penn Gas, Inc. ("CPG") (collectively, "UGI Companies") for purposes of discovery, hearing, and briefing but not for decision.

10. In accordance with the procedural schedule, OCA and I&E submitted direct testimony on June 28, 2018.

11. On July 3, 2018, a Joint Petition for Protective Order was filed by the Company, which was granted by the Order issued on August 8, 2018.

12. On July 17, 2018, the Company submitted rebuttal testimony.

13. On July 26, 2018, OCA and I&E submitted surrebuttal testimony.

14. The Parties held several settlement conferences in this proceeding. As a result of these conference and the efforts of the Parties to examine the issues raised in this proceeding, a settlement in principle was achieved prior to the date for evidentiary hearings. On July 27, 2018, counsel for the Company advised the ALJs of the settlement in principle and requested that the

procedural schedule be suspended and that the evidence be admitted by stipulation at the evidentiary hearing scheduled for July 30, 2018.

15. The July 30, 2018 evidentiary hearing was held as scheduled for the purpose of admitting the Parties' written testimony and exhibits into the record. The testimony and exhibits were admitted into the record by stipulation with accompanying signed verifications of the sponsoring witnesses.

II. GENERAL PROVISIONS OF SETTLEMENT

A. DESIGN DAY

16. The Company will be permitted to use a design day figure of 893,166 Dth, as proposed, pursuant to the peak day and capacity reserve requirements in its proposal.

B. AWARD OF CALL OPTION DELIVERED SUPPLY SERVICE

17. The Company provided the results of the Request for Proposal ("RFP") for the call option delivered supply service for 36,169 Dth. UGI Energy Services, LLC ("UGIES") was the only supplier who provided a bid for this service. The Parties agree that they do not oppose the Company's selection of the UGIES bid.

C. PEAKING CONTRACT MODIFICATIONS

18. The Company will modify its RFPs for November 1, 2019 – October 31, 2020 peaking services as follows: the Company's bid form will require suppliers to provide bids based on (a) payment terms that exclude a November payment and (b) payment terms that include a November payment. For future RFP solicitations, PNG will follow the RFP process described in Paragraphs 22 and 23. The Parties agree that the Company will not be required to make any additional changes to its RFP process for its forthcoming RFP solicitation. The Company will provide I&E and the OCA a representative example of the 2019 RFP when it is issued. The Company will provide the RFP responses during the 2019 PGC proceeding to all Parties.

D. TRUNCATION/REMAINING LIFE METHODOLOGY

19. For the 2018-2019 PGC year, the Company will be permitted to calculate its quarterly PGC rate change using the methodology approved in its 2017 PGC settlement. This methodology permits the Company to recover actual experienced over/under collections on an annual basis, while projected over/under collections for the remaining months of the PGC period may be recovered on either an annual basis or on a remaining life basis over the remaining portion of the PGC year. Quarterly rate changes are capped at 15% for September 1st, 25% for December 1st, 25% for March 1st and 25% for June 1st.

20. In its 2019 PGC filing, the Company will provide a two-year quarterly analysis comparing its methodology to I&E's preferred methodology, which would require the Company to calculate December 1, March 1, and June 1 quarterly C-Factor adjustments by recovering actual and projected over/under collections over remaining PGC year sales volumes. September 1 quarterly C-Factor adjustments would be calculated using the six months of sales volumes for the months of June through November. Each quarterly rate change would be capped at 25% of the then-current PGC rate. The Company will provide this analysis to the Parties in native format with its PGC filing.

E. CAPACITY RELEASE PROGRAM

21. The Parties agree that no modification is required to the Company's capacity release program. The Company has demonstrated that during the 2017-2018 PGC year, it did not acquire capacity for the capacity release program in excess of participating transportation customer needs.

F. RFP PROCESS

22. In January of 2019, 2020, and 2021 the Company will notify potential bidders and the interstate pipelines that interconnect with the Company's distribution system of its projected

additional capacity resource requirements for the following winter and subsequent four years, provide an estimate of when RFPs for the additional capacity resources are expected to be issued, and identify the anticipated RFP award dates. In April of each year, the Company will then formally issue its RFP for additional capacity resources for the following winter, and notify potential bidders of any changes to its projected additional capacity requirements for the next four years and the related RFP issuance and due dates for which notice was provided the previous January. For Texas Eastern Transmission, LP (“Texas Eastern”) capacity and/or sourced supplies, the Company’s notifications and RFPs will indicate that capacity held under Section 14.9 of Texas Eastern’s tariff qualifies as primary firm capacity.

23. The Company will notify the successful and unsuccessful bidders of its RFP one month after the RFP due date. The Company may condition the final execution of a contract on Commission approval of the contract.

III. STANDARDS AND FINDINGS

24. This proceeding involves Commission review pursuant to Sections 1307 and 1318 of the Public Utility Code. Under Section 1307(f), the Commission, after hearing, must determine what portion of the gas costs PNG may recover for a previous 12-month period under the standards set forth in Section 1318. In addition, the Commission must determine whether the requirements of Section 1318 can be met. This determination must precede Commission approval of the Company’s proposed rates. The historic period reviewed in this proceeding is the 12-month reconciliation period ending March 31, 2018. The proposed rates are intended to become effective December 1, 2018.

A. HISTORIC RECONCILIATION PERIOD STANDARDS

25. With respect to PNG’s gas purchases and gas purchasing practices during the 12-month historic reconciliation period ending March 31, 2018, all Parties agree, and request the

Commission to find, that PNG has met the standard set forth in Section 1318 of the Public Utility Code, as required by Section 1307(f)(5) of the Public Utility Code. All Parties request that the Commission find, pursuant to Section 1307(f)(5) of the Public Utility Code, and based upon the evidence presented by the Parties in this case, that during the 12-month period ended March 31, 2018, PNG has met the requirements of Section 1318 of the Public Utility Code by pursuing a least-cost fuel procurement policy, consistent with its obligation to provide safe, adequate and reliable service to its customers. Information submitted by PNG in support of the required statutory findings can be found in the following sections of PNG Exhibit 1:

- a) FERC Participation (66 Pa. C.S. §§ 1317(a)(1), 1318(a)(1); 52 Pa. Code § 53.64(c)(4)): Prefiling, Section 3
- b) Supplier Negotiations/Renegotiations (66 Pa. C.S. §§ 1317(a)(2), 1318(a)(2); 52 Pa. Code § 53.64(c)(3), (c)(6)): Prefiling, Sections 2 and 5.
- c) Efforts to Obtain Lower Cost Supplies (66 Pa. C.S. §§ 1317(a)(3), 1318(a)(3); 52 Pa. Code § 53.64(c)(1), (c)(3), (c)(6)): Prefiling, Sections 1, 2, and 5.
- d) Withheld Supplies (66 Pa. C.S. §§ 1317(a)(4), 1318(a)(4); 52 Pa. Code § 53.64(c)(6)): Prefiling, Section 5.
- e) Affiliated Purchases (66 Pa. C.S. §§ 1317(b), 1318(b); 52 Pa. Code § 53.65): Prefiling, Section 13.
- f) Least Cost Fuel Procurement Policy (66 Pa. C.S. §§ 1317(a), 1318(a); 52 Pa. Code § 53.64(c)(1), (c)(3), (c)(6)): Prefiling, Section 1, 2 and 5.
- g) Calculation of 2018 PGC Rates:

- i) June 1, 2018, Filing, Schedule A – Computation of Purchased Gas Cost Rate effective Dec. 1, 2018;
- ii) June 1, 2018, Filing, Schedule B (page 1) – Development of Projected Cost of Gas (C-factor);
- iii) June 1, 2018, Filing, Schedule B (pages 2-13) – Projected Supply Volumes, Rates, Costs 4/18 through 11/19;
- iv) June 1, 2018, Filing, Schedule C – Development of Experienced Cost of Gas (E-factor);
- v) June 1, 2018, Filing, PNG Statement No. 1, Written Direct Testimony of Tracy A. Hazenstab, Senior Analyst – Rates.
- h) Reliability (66 Pa. C.S. §1317(c)): Prefiling, Section 14.

B. PROJECTED PERIOD FINDINGS

26. With respect to the 12-month period beginning December 1, 2018, the period of time during which the proposed rates would be in effect, all Parties agree and request the Commission to find that PNG has satisfied each of the standards for a least cost procurement policy set forth in Section 1318 of the Public Utility Code, including the standards set forth in Sections 1318(a)(1), 1318(a)(2), 1318(a)(3), 1318(a)(4), 1318(b)(1), 1318(b)(2), and 1318(b)(3), based upon the evidence of record in this proceeding. Nevertheless, it is expressly understood and agreed that such findings, relating to the rates to become effective December 1, 2018, are made solely for the purpose of setting prospective rates and shall be subject to further review in an appropriate future proceeding. This Section of the Settlement, Section III.B., is not intended to limit or prevent any party from challenging projected gas purchases that actually have been made, including those made during the interim period of April 1, 2018, through November 30, 2018, and future gas purchasing practices that have been implemented, or from reviewing

whether these gas purchases and gas purchasing practices have, in fact, complied with the standards of Section 1318, except as provided in Section II above.

27. If in an appropriate future proceeding, gas purchases and gas purchasing practices relating to the period December 1, 2018, through November 30, 2019, are challenged, the Commission's findings made pursuant to Section III.B. of this Settlement shall pose no bar to the examination of such purchases and practices including, but not limited to, disallowance of or reductions to, such costs during the one-year period commencing December 1, 2018, except as provided in Section II above.

28. The Parties also agree that future examination of the gas costs relating to the period April 1, 2018, through November 30, 2018, to determine whether PNG's experienced and projected gas purchases and gas purchasing practices complied with the standards set forth in Section 1318 of the Public Utility Code, 66 Pa. C.S. § 1318, shall be permitted and that the Commission's adoption of the findings under Section III.B. of this Settlement shall not be construed to limit or prevent any disallowance or reduction of such costs, except as provided in Section II above.

C. VICE CHAIRMAN PLACE'S STATEMENT IN LAST YEAR'S PGC PROCEEDING

29. As mentioned previously, Vice Chairman Place issued a statement in last year's proceeding, in which he raised some concerns related to the Company's PGC rates.

30. First, Vice Chairman Place expressed a concern about the Company's E-factor, which was 5.9% and stated that the Company should take actions to reduce the E-factor. *Vice Chairman Place Statement*, p. 1. PNG witness Hazenstab testified that the Company was able to reduce its E-factor to 1.6% of the total current PGC rate. (PNG Statement No. 1, p. 11, line 11) Further, as stated in Paragraph 20 of this Settlement, in next year's PGC filing PNG has agreed

to provide a two-year quarterly analysis comparing its methodology to I&E's preferred methodology for the calculation of PGC quarterly rate changes.

31. Second, Vice Chairman Place requested that the Parties “examine the differences, and provide an explanation for the peak day requirements and the corresponding costs associated with these procurements.” *Vice Chairman Place Statement*, p. 2. PNG witness Borelli testified that there is a difference between the Company's actual peak day send out and the design day requirements “because the Company must maintain sufficient supply in order to meet its obligations to provide reliable service and meet its requirements as supplier of last resort.” (PNG Statement No. 2, p. 9, lines 12-14) Ms. Borelli also supported the need to procure peak day requirements that may be in excess of actual sendout. (PNG Statement No. 2, p. 9, line 14 to p. 10, line 2)

32. Third, “[t]o the extent no storage or transportation contracts exist,” Vice Chairman Place “ask[ed] that UGI more thoroughly work with suppliers to identify a means of improving the competitive structure” of the RFPs for peak supply requirements. *Vice Chairman Place Statement*, p. 2. The Company made several changes to its RFP process this year to accommodate the concerns raised by Vice Chairman Place, specifically: (1) increasing the number of suppliers that receive the RFP; (2) lengthening the term of the RFP; and (3) considering alternate start dates to provide suppliers with a better opportunity to forecast demand and develop their portfolios. (PNG Statement No. 2, p. 16, lines 6-8; p. 17, lines 14-23) Moreover, under Paragraphs 22 and 23 of this Settlement, the Company has made additional commitments to help improve its RFP process.

33. Finally, Vice Chairman Place questioned whether costs associated with temporary liquefied natural gas (“LNG”) suppliers should be allocated as distribution costs recoverable in

distribution rates or as supply costs recoverable in PGC rates. *Vice Chairman Place Statement*, p. 2. PNG did not utilize any temporary LNG during the historic period, so Vice Chairman Place's concern did not need to be addressed in this proceeding.

IV. MISCELLANEOUS

34. This 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, 2018, 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.

35. 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.

36. If the ALJs approve this Settlement without modification, the Parties waive their rights to file exceptions.

37. 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.

38. 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.

39. 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.

40. 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, 2018.

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

42. This Settlement may be executed in counterparts.

V. CONCLUSION

WHEREFORE, the Parties, by their respective counsel, respectfully request as follows:

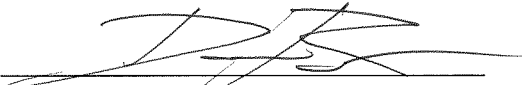
1. That Administrative Law Judges Steven K. Haas and Andrew Calvelli and the Commission approve this Settlement, including all terms and conditions thereof;

2. That the Commission enter a Final Order consistent with this Settlement that: (a) finds that there is sufficient evidence in the record for this Commission to make the findings referenced in Sections III.A and III.B of this Settlement; and (b) sets forth the findings referenced in Section III.A and III.B of this Settlement;

3. That the Commission enter a Final Order, consistent with this Settlement: (a) approving the proposed rates effective December 1, 2018, as modified to reflect updates and tariff modifications traditionally performed as part of PNG's December 1 PGC compliance filings; and (b) directing PNG to file a final tariff implementing such rates for gas service rendered by PNG on and after December 1, 2018; and

4. That the Commission mark closed its inquiry and investigation at Docket Nos. R-2018-3001632, C-2018-3001822, and C-2018-3001827.

Respectfully submitted,



Danielle Jouenne (ID# 306839)
UGI Corporation
460 North Gulph Road
King of Prussia, PA 19406-2807
Phone: 610-992-3203
E-mail : jouenned@ugicorp.com

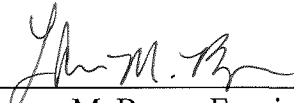
Date: 8/10/2018

Anthony D. Kanagy (ID # 85522)
Devin T. Ryan (ID # 316602)
Post & Schell, P.C.
17 North Second Street, 12th Floor
Harrisburg, PA 17101-1601
Phone: 717-612-6034
717-612-6052
Fax: 717-731-1985
E-mail: akanagy@postschell.com
dryan@postschell.com



Scott B. Granger, Esquire (ID# 63641)
Bureau of Investigation & Enforcement
Commonwealth Keystone Building
400 North Street, 2nd Floor West
Harrisburg, PA 17105-3265
Phone: (717) 425-7593
E-mail: sgranger@pa.gov
Attorney for Bureau of Investigation & Enforcement

Date: 8/10/18



Date: 8/10/18

Lauren M. Burge, Esquire (ID# 311570)
Aron J. Beatty, Esquire (ID # 86625)
Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
E-mail: lburge@paoca.org
abeatty@paoca.org
Attorneys for Office of Consumer Advocate

Appendix A

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	Docket Nos. R-2018-3001632
Office of Consumer Advocate	:	C-2018-3001822
Office of Small Business Advocate	:	C-2018-3001827
v.	:	
UGI Penn Natural Gas, Inc. § 1307(f)	:	

**UGI PENN NATURAL GAS, INC.’S
STATEMENT IN SUPPORT OF
STIPULATION IN SETTLEMENT OF
SECTION 1307(f) RATE INVESTIGATION**

TO ADMINISTRATIVE LAW JUDGES STEVEN K. HAAS AND ANDREW M. CALVELLI:

UGI Penn Natural Gas, Inc. (“PNG” or the “Company”) hereby submits this Statement in Support of the Stipulation in Settlement of the Section 1307(f) Rate Investigation (“Settlement”) entered into by PNG, the Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), and the Office of Consumer Advocate (“OCA”), all Parties in the above-captioned proceeding.¹ PNG believes that this Settlement is in the best interests of the Company, its customers, and the Joint Petitioners and, therefore, is in the public interest and should be approved.

The Settlement of this proceeding was achieved only after a comprehensive investigation of PNG’s gas procurement practices. PNG responded to numerous and extensive formal discovery requests. Parties also filed multiple rounds of testimony, including the direct testimony of PNG, OCA, and I&E, the rebuttal testimony of PNG, and the surrebuttal testimony

¹ The Office of Small Business Advocate (“OSBA”), the only other party to this proceeding, has advised the Company that it does not oppose this Settlement and that it will be filing a Statement of Non-Opposition.

of OCA and I&E. In addition, the Joint Petitioners participated in numerous settlement discussions, which ultimately led to the Settlement.

The Settlement reflects a carefully balanced compromise of the interests of the Parties to this proceeding. For the reasons set forth below, the Settlement is just and reasonable and should be approved.

I. SETTLEMENT TERMS

A. DESIGN DAY

PNG projected a design day figure of 893,166 Dth, which included a 7,562 Dth capacity reserve requirement, utilizing the same methodology to calculate peak day demand that the Company used for the past five years, since the winter of 2014-2015. (PNG Statement No. 2, pp. 7-8; PNG Statement No. 2-R, p. 8) Under this methodology, PNG calculates the design day projections based on the highest sendout day of the most recent winter and extrapolated to design day conditions. (PNG Statement No. 2, pp. 7-8; PNG Statement No. 2-R, p. 7)

OCA witness Mierzwa disagreed with PNG's design day methodology. (OCA Statement No. 1, p. 2) Mr. Mierzwa contended 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 Statement No. 1, pp. 2, 5) However, Mr. Mierzwa accepted PNG's design day forecasts because the alternative methodologies he examined did not produce significantly different results. (OCA Statement No. 1, pp. 2-3, 5)

In rebuttal, the Company observed that it relies on several sources of measurement data to validate its actual system demand and, therefore, its methodology does not produce unreliable results. (PNG Statement No. 2-R, p. 9) Moreover, although other natural gas distribution companies' ("NGDCs") design day methodologies differ from the Company's methodology, the

other NGDCs' methodologies cited by Mr. Mierzwa also differ from each other. (PNG Statement No. 2-R, p. 10)

Under the Settlement, the Parties agree that the Company will be permitted to use a design day figure of 893,166 Dth, as proposed, pursuant to the peak day and capacity reserve requirements in its proposal. (Settlement ¶ 16) As explained above, the other forecasting methodologies examined by OCA witness Mierzwa did not produce significantly different results, and no other Party challenged PNG's design day demands forecast. Moreover, PNG provided substantial support for its design day demands forecast. Accordingly, this settlement term is reasonable and is in the public interest. Therefore, it should be approved without modification.

B. AWARD OF CALL OPTION DELIVERED SUPPLY SERVICE

PNG explained in its direct testimony that it issued a Request for Proposal ("RFP") on April 27, 2018, for a delivered supply service, which would provide the Company the option to call upon the service from zero up to the maximum daily quantity of 26,311 Dth per day on a daily or monthly basis. (PNG Statement No. 2, p. 11) UGI Energy Services, LLC ("UGIES") was the only entity to respond to the RFP, and the Company selected the UGIES bid. (PNG Statement No. 2, p. 16) Subsequently, in rebuttal testimony, the Company clarified that it requires 36,169 Dth of delivered service for the upcoming winter. (PNG Statement No. 2-R, p. 13) PNG contacted UGIES and inquired whether it could provide PNG with the additional 9,858 Dth of delivered service. (PNG Statement No. 2-R, p. 13) UGIES submitted a revised RFP response for the corrected quantity of 36,169 Dth. (PNG Statement No. 2-R, p. 13) Accordingly, UGIES's bid remained the Company's selection.

No party disputed the Company's selection of the UGIES bid.

Under the Settlement, the Parties observe that the Company provided the results of the RFP for the call option delivered supply service for 36,169 Dth and that UGIES was the only supplier who provided a bid for this service. (Settlement ¶ 17) Further, the Parties agree that they do not oppose the Company's selection of the UGIES bid. (Settlement ¶ 17) Thus, the settlement term is reasonable and in the public interest and should accordingly be approved without modification.

C. PEAKING CONTRACT MODIFICATIONS

I&E witness Keller proposed that the Company revise the payment schedule for its peaking service contracts with UGIES to remove the November payment. (I&E Statement No. 1, pp. 5-6) According to Mr. Keller, the Company's usage data does not support the claims of winter usage levels in November, and the peaking service contracts and RFPs "could be modified to alter the payment terms." (I&E Statement No. 1, pp. 6-7) Mr. Keller alleged that a payment for peak winter usage coverage in November is unreasonable because it results in an under-collection and attendant interest amount due from ratepayers. (I&E Statement No. 1, pp. 6-7) Therefore, Mr. Keller recommended removing the November payment. (I&E Statement No. 1, p. 7)

PNG disagreed with Mr. Keller's recommendation for several reasons. First, purchased gas cost ("PGC") rates are calculated based on 12 months of costs and volumes. (PNG Statement No. 2-R, p. 2) Whether the peaking service demand charges are paid over five months, four months, or one month, the PGC rate will remain the same. (PNG Statement No. 2-R, p. 2) Therefore, shifting costs between different months of the PGC year will not reduce the E-Factor because costs and revenues are calculated over a 12-month period. (PNG Statement No. 2-R, p. 3) 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

Statement No. 1-R, p. 4) In fact, moving the November payment to December would add approximately \$77,500 to the incremental interest for the past PGC year. (PNG Statement No. 1-R, p. 4) Third, although RFP contract terms could possibly be renegotiated for future contracts, it is likely that a winter peaking service contract with delayed payment terms would be priced higher than a similar contract that provided for payments during the months for which the service is available. (PNG Statement No. 2-R, p. 3)

I&E witness Keller submitted surrebuttal testimony, in which he clarified his proposal is for the Company to spread the November payment over the remaining four months (December through March). (I&E Statement No. 1-SR, p. 3) Moreover, Mr. Keller disputed PNG's contention that removing the November payment would result in higher priced peaking service contract bids. (I&E Statement No. 1-SR, p. 5) After addressing the arguments made by PNG's witnesses, Mr. Keller continued to recommend that the Company eliminate the November payment. (I&E Statement No. 1-SR, pp. 3-7)

The Settlement provides that the Company will modify its RFPs for November 1, 2019 – October 31, 2020 peaking services as follows: the Company's bid form will require suppliers to provide bids based on (a) payment terms that exclude a November payment and (b) payment terms that include a November payment. (Settlement ¶ 18) For future RFP solicitations, PNG will follow the RFP process described in Paragraphs 22 and 23 of the Settlement. (Settlement ¶ 18) Furthermore, the Parties agree that the Company will not be required to make any additional changes to its RFP process for its forthcoming RFP solicitation. (Settlement ¶ 18) The Company will provide I&E and the OCA a representative example of the 2019 RFP when it is issued. (Settlement ¶ 18) The Company will provide the RFP responses during the 2019 PGC proceeding to all Parties. (Settlement ¶ 18) These settlement provisions represent a reasonable

compromise of the Parties' positions, as they will enable the Company and the Parties to further evaluate the pricing impact of excluding the November payment from peaking service contracts. Thus, these settlement provisions are reasonable and in the public interest and, therefore, should be approved.

D. TRUNCATION/REMAINING LIFE METHODOLOGY

Currently, the Company calculates quarterly PGC rate changes using the methodology agreed to in the settlement of the Company's 2017 PGC proceeding. (PNG Statement No. 1-R, pp. 4-5) Under this methodology, the PGC quarterly filings recover actual over/under collections (actual monthly results compared to monthly projections from an annual PGC filing) on an annualized basis, while project over/under collections for the remaining months of the PGC period (due to projected changes in gas costs) may be recovered on either an annualized basis or on a remaining life basis over the remaining portion of the PGC year. (PNG Statement No. 1-R, p. 5) However, from December 2014 through November 2017, the Company used the "Truncation Method," under which the Company recovered all actual and projected incremental over/under collections from December 1 through November 30 over the remaining PGC year sales volumes. (PNG Statement No. 1-R, p. 5)

In direct testimony, I&E witness Keller recommended that the Company return to the "Truncation Method" to calculate quarterly PGC rate changes, subject to the quarterly rate caps established in last year's proceeding. (I&E Statement No. 1, pp. 7-10) Mr. Keller alleged that the use of the current methodology would result in increased over/under collections and the attendant interest that must be recovered in the subsequent PGC year via the E-factor. (I&E Statement No. 1, p. 10)

The Company disagreed with Mr. Keller's recommendation. PNG witness Hazenstab explained that the Company's current methodology provides it with more flexibility to manage

both over/under collections as well as rate volatility for its PGC customers. (PNG Statement No. 1-R, p. 7) Indeed, in reviewing the Company's historic E-factor levels from March 2012 to present, the highest E-factor level was 22.1% for the period June 1, 2015, through November 30, 2015, when the Company was using the Truncation Method recommended by Mr. Keller. (PNG Statement No. 1-R, p. 7) Furthermore, the Company has only filed two PGC quarterly changes based on the current method that arose from last year's settlement, which is insufficient time for I&E to base its recommendation that the Company change its current method. (PNG Statement No. 1-R, pp. 7-8)

In surrebuttal testimony, I&E witness Keller responded to Ms. Hazenstab's arguments and maintained that the Company should return to utilizing the Truncation Method. (I&E Statement No. 1-SR, pp. 7-14) Among other things, Mr. Keller averred that the June to November 2015 period cited by Ms. Hazenstab was not representative of the revenues and costs typically experienced, because it was a polar vortex year. (I&E Statement No. 1-SR, p. 9) Mr. Keller also disputed that additional time is needed to validate the results of the current methodology. (I&E Statement No. 1-SR, p. 13)

The Settlement provides that for the 2018-2019 PGC year, the Company will be permitted to calculate its quarterly PGC rate change using the methodology approved in its 2017 PGC settlement. (Settlement ¶ 19) This methodology permits the Company to recover actual experienced over/under collections on an annual basis, while projected over/under collections for the remaining months of the PGC period may be recovered on either an annual basis or on a remaining life basis over the remaining portion of the PGC year. (Settlement ¶ 19) Quarterly rate changes are capped at 15% for September 1st, 25% for December 1st, 25% for March 1st and 25% for June 1st. (Settlement ¶ 19)

In addition, in its 2019 PGC filing, the Company will provide a two-year quarterly analysis comparing its methodology to I&E's preferred methodology, which would require the Company to calculate December 1, March 1, and June 1 quarterly C-Factor adjustments by recovering actual and projected over/under collections over remaining PGC year sales volumes. (Settlement ¶ 20) September 1 quarterly C-Factor adjustments would be calculated using the six months of sales volumes for the months of June through November. (Settlement ¶ 20) Each quarterly rate change would be capped at 25% of the then-current PGC rate. (Settlement ¶ 20) The Company will provide this analysis to the Parties in native format with its PGC filing. (Settlement ¶ 20)

Thus, the Settlement recognizes that the Company will continue to use its current methodology for the 2018-2019 PGC year, while also providing an analysis in next year's PGC filing showing the results of the Company's current methodology versus I&E's preferred methodology. Such analysis should help the Parties evaluate which of the two methodologies is more appropriate. Accordingly, these settlement terms are reasonable and in the public interest and should be approved.

E. CAPACITY RELEASE PROGRAM

In direct testimony, OCA witness Mierzwa observed that the Commission approved the Company's capacity release program for Rates DS and LFD customers as part of the settlement in last year's PGC proceeding. (OCA Statement No. 1, pp. 5-6) That settlement included a provision under which the Company agreed that it would not acquire capacity for the capacity release program in excess of participating transportation customer needs. (OCA Statement No. 1, pp. 6-7) Mr. Mierzwa averred that the Company needed to present more information in its rebuttal testimony to demonstrate that it complied with this settlement term. (OCA Statement No. 1, p. 8)

PNG witness Borelli demonstrated in rebuttal testimony that the Company complied with its settlement obligation. (PNG Statement No. 2-R, pp. 10-13) Participating in the program is mandatory for Rate DS customers, who had individual customer daily firm requirements totaling 41,329 Dth during the review period. (PNG Statement No. 2-R, p. 11) Moreover, there were no Rate LFD customers participating in the program. (PNG Statement No. 2-R, p. 11) Accordingly, the Company held 41,329 Dth of capacity for Rate DS customers during the review period. (PNG Statement No. 2-R, p. 11) Ms. Borelli corrected Mr. Mierzwa's claim that 50,101 Dth was held for Rate DS customers during the review period, noting that he mistakenly attributed capacity that the Company acquires for Rate DS balancing services into his calculation of capacity for the capacity release program. (PNG Statement No. 2-R, pp. 11-12) These balancing services are provided to transportation customers; therefore, their associated costs are recovered from transportation customers, not from PGC customers. (PNG Statement No. 2-R, p. 12) Thus, there was no excess capacity held by the Company related to the capacity release program.

In surrebuttal testimony, Mr. Mierzwa stated that since the filing of its rebuttal testimony, the Company has demonstrated that it has complied with the settlement in last year's proceeding. (OCA Statement No. 1-SR, p. 6)

The Settlement provides that the Parties agree that no modification is required to the Company's capacity release program. (Settlement ¶ 21) The Company has demonstrated that during the 2017-2018 PGC year, it did not acquire capacity for the capacity release program in excess of participating transportation customer needs. (Settlement ¶ 21) Therefore, the Settlement reflects that the Company has complied with the capacity release program settlement

terms from last year's proceeding, as stated in PNG's and OCA's testimony. Thus, the settlement term is reasonable and in the public interest and should be approved.

F. RFP PROCESS

In direct testimony, OCA witness Mierzwa noted that the Company made several changes to its RFP process in response to the concerns raised in Vice Chairman Place's Statement in last year's proceeding that increased the interest of potential bidders and promoted least cost procurement. (OCA Statement No. 1, p. 10) Notwithstanding, Mr. Mierzwa averred that the Company could take additional steps to improve its RFP process. (OCA Statement No. 1, pp. 10-11) First, Mr. Mierzwa recommended that the Company explore options to decrease the time between the RFP due date and contract award date. (OCA Statement No. 1, p. 11) Second, Mr. Mierzwa claimed that the Company should explore options that provide potential bidders significantly more notice of its RFPs for capacity resources. (OCA Statement No. 1, p. 11)

In rebuttal testimony, PNG witness Borelli explained that the Company typically issues RFPs as needed for new peaking and delivered services in April each year, which coincides with when the Company completes its analysis of the design firm peak day demand for the upcoming year. (PNG Statement No. 2-R, p. 4) Potential suppliers are then provided with three to four weeks to evaluate and respond to the Company's RFP, which ensures that the RFP results are available for parties' review during the pendency of the PGC proceeding. (PNG Statement No. 2-R, pp. 4-5) Although Mr. Mierzwa did not specify in testimony what he would consider to be a reasonable response time for RFP participants, he stated in discovery that a response time of five years may be appropriate for services requiring the construction of new facilities. (PNG Statement No. 2-R, p. 5; Exhibit PNG-AMB-1R) Ms. Borelli observed that while the Company is willing to consider options that would provide potential bidders with more time to prepare

responses, five years is an excessive amount of time. (PNG Statement No. 2-R, p. 5) As for shortening the time between the RFP bid date and contract award date, PNG argued that it is unwise to award an RFP before having some reasonable assurance, such as a unanimous settlement in the PGC case, that the successful bidder's contract will actually be executed. (PNG Statement No. 2-R, pp. 6-7) Although bidders may like assurance of their successful bid sooner rather than later, awarding the contract and then either terminating it or altering the terms post-award based on the final resolution of the PGC proceeding would diminish rather than increase a bidder's confidence in the award of an RFP. (PNG Statement No. 2-R, p. 7)

In surrebuttal, Mr. Mierzwa clarified that his recommendation of a five-year period related to the time period for PNG to provide potential bidders with notice of RFPs, not the amount of time that a bidder is provided to prepare a bid once an RFP has been issued. (OCA Statement No. 1-SR, p. 2) More specifically, in January of each year, the Company should notify potential bidders of its projected additional capacity resource requirements for the following winter and subsequent four years, provide an estimate of when RFPs for the additional capacity resources are expected to be issued, and identify the anticipated RFP award dates. (OCA Statement No. 1-SR, p. 2) Then, in April, the Company should formally issue the RFP for the following winter and notify potential bidders of any changes to its projected requirements for the next four years. (OCA Statement No. 1-SR, p. 2) Moreover, Mr. Mierzwa recommended that the Company should institute a one-month period between the RFP bid due date and contract award date. (OCA Statement No. 1-SR, pp. 3-4)

Under the Settlement, in January of 2019, 2020, and 2021 the Company will notify potential bidders and the interstate pipelines that interconnect with the Company's distribution system of its projected additional capacity resource requirements for the following winter and

subsequent four years, provide an estimate of when RFPs for the additional capacity resources are expected to be issued, and identify the anticipated RFP award dates. (Settlement ¶ 22) In April of each year, the Company will then formally issue its RFP for additional capacity resources for the following winter, and notify potential bidders of any changes to its projected additional capacity requirements for the next four years and the related RFP issuance and due dates for which notice was provided the previous January. (Settlement ¶ 22) For Texas Eastern Transmission, LP (“Texas Eastern”) capacity and/or sourced supplies, the Company’s notifications and RFPs will indicate that capacity held under Section 14.9 of Texas Eastern’s tariff qualifies as primary firm capacity. (Settlement ¶ 22) Further, the Company will notify the successful and unsuccessful bidders of its RFP one month after the RFP due date. (Settlement ¶ 23) The Company also may condition the final execution of a contract on Commission approval of the contract. (Settlement ¶ 23)

In sum, these settlement provisions substantially adopt the recommendations set forth in the OCA’s surrebuttal testimony and otherwise reflect a reasonable compromise of the Parties’ positions. Moreover, the settlement terms build upon the improvements made by the Company to its RFP process since last year’s proceeding. Accordingly, the settlement terms are reasonable and in the public interest and, therefore, should be approved without modification.

II. RESPONSE TO THE CONCERNS RAISED IN VICE CHAIRMAN PLACE’S STATEMENT

In last year’s proceeding, Vice Chairman Andrew G. Place issued a statement expressing certain concerns related to the Company’s PGC rates. *See* Statement of Vice Chairman Andrew G. Place, Docket Nos. R-2017-2602627, *et al.* (Oct. 5, 2017) (“Vice Chairman Place Statement”). Based on the Company’s testimony and the commitments made in the Settlement,

the Company believes that it has addressed all of those concerns applicable to the Company's PGC proceeding this year.

First, Vice Chairman Place expressed a concern about the Company's E-factor, which was 5.9%, and stated that the Company should take actions to reduce the E-factor. *Vice Chairman Place Statement*, p. 1. PNG witness Hazenstab testified that the Company was able to reduce its E-factor to 1.6% of the total current PGC rate. (PNG Statement No. 1, p. 11) Notably, this E-factor of 1.6% was calculated using the Company's currently methodology, whereas last year's E-factor of 5.9% was determined based upon I&E's preferred Truncation Method. In response to I&E's proposal that the Company revert to the Truncation Method, the Company was concerned about the impact that such a switch would have on the volatility of the E-factor. (PNG Statement No. 1-R, p. 7) Accordingly, the Company maintained that it should continue to use its current methodology. (PNG Statement No. 1-R, p. 7) Notwithstanding the Company's preference of the PGC rate change methodology approved in the 2017 PGC proceeding, in order to evaluate whether further reductions to the E-factor can be accomplished, PNG has agreed to provide a two-year quarterly analysis in next year's PGC filing that compares its methodology to I&E's preferred methodology for the calculation of PGC quarterly rate changes. (Settlement ¶ 20)

Second, Vice Chairman Place requested that the Parties "examine the differences, and provide an explanation for the peak day requirements and the corresponding costs associated with these procurements." *Vice Chairman Place Statement*, p. 2. PNG provided testimony in direct response to this request. PNG witness Borelli testified that there is a difference between the Company's actual peak day send out and the design day requirements "because the Company must maintain sufficient supply in order to meet its obligations to provide reliable service and

meet its requirements as supplier of last resort.” (PNG Statement No. 2, p. 9) Ms. Borelli also supported the need to procure peak day requirements that may be in excess of actual sendout. (PNG Statement No. 2, pp. 9-10) Indeed, the margin cited by Vice Chairman Place in last year’s proceeding “is not unexpected for an industry that provides an essential service whose interruption, particularly during the winter, could impair human health and disrupt industry.” (PNG Statement No. 2, p. 9) Because the Company must plan for a worst case scenario, it is reasonable for the Company to procure supplies in excess of its recent actual peak day sendout. (PNG Statement No. 2, p. 9)

Third, “[t]o the extent no storage or transportation contracts exist,” Vice Chairman Place “ask[ed] that UGI more thoroughly work with suppliers to identify a means of improving the competitive structure” of the RFPs for peak supply requirements. *Vice Chairman Place Statement*, p. 2. Here, PNG witness Borelli explained that the Company made several changes to its RFP process this past year. (PNG Statement No. 2, pp. 16-17) For starters, the Company increased the number of suppliers that receive its RFP by including, on a going-forward basis, those entities with which the Company negotiates a North American Energy Standards Board (“NAESB”) agreement. (PNG Statement No. 2, p. 17) This change is anticipated to increase the number of RFP recipients by five entities per year and should capture any supplier currently interested in providing service on the Company’s system. (PNG Statement No. 2, p. 17) Further, the Company lengthened the term of its RFP, as the traditional one to five-year service agreements that the Company had been entering into were potentially not long enough to interest certain suppliers. (PNG Statement No. 2, p. 17) Lastly, starting with its most recent RFP, the Company considered alternate start dates to provide suppliers with a better opportunity to forecast demand and develop their portfolios. (PNG Statement No. 2, p. 17) In addition, as

explained previously, the Company made several additional commitments in the Settlement to modify and hopefully improve its RFP process, including providing bidders with more advance notice of RFPs and notifying the successful and unsuccessful bidders of its RFP one month after the RFP due date. *See* Section I.F., *supra*.

Fourth, Vice Chairman Place questioned whether costs associated with temporary liquefied natural gas (“LNG”) suppliers should be allocated as distribution costs recoverable in distribution rates or as supply costs recoverable in PGC rates. *Vice Chairman Place Statement*, p. 2. PNG did not utilize any temporary LNG during the historic period, so Vice Chairman Place’s concern was not addressed in this proceeding.

Based on the foregoing, PNG believes that it has addressed the concerns raised in the Vice Chairman Place Statement.

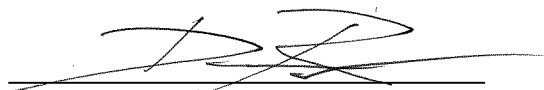
III. CONCLUSION

As explained above, the Settlement is in the public interest and should be approved. 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 Administrative Law Judges 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, including preparation for and participation in hearings, preparation of briefs, reply briefs, exceptions, and replies to exceptions.

All of the Parties to the Settlement also request that the required statutory findings be made in this proceeding. These statutory findings are appropriate and are amply supported by the Settlement, PNG’s pre-filing information, PNG’s definitive PGC filing, and PNG’s testimony in this proceeding.

The Settlement is the result of compromise. Each 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 that Administrative Law Judges Steven K. Haas and Andrew M. Calvelli and the Commission approve the Settlement without modification.

Respectfully submitted,



Danielle Jouenne (ID # 306839)
UGI Corporation
460 North Gulph Road
King of Prussia, PA 19406-2807
Phone: 610-992-3203
Fax: 610-992-3258
E-mail: jouenned@ugicorp.com

Anthony D. Kanagy (ID # 85522)
Devin T. Ryan (ID # 316602)
Post & Schell, P.C.
17 North Second Street, 12th Floor
Harrisburg, PA 17101-1601
Phone: 717-612-6034
717-612-6052
Fax: 717-731-1985
E-mail: akanagy@postschell.com
dryan@postschell.com

Date: August 10, 2018

Counsel for UGI Penn Natural Gas, Inc.

CERTIFICATE OF SERVICE

Docket No. R-2018-3001632

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

VIA E-MAIL & FIRST CLASS MAIL

Scott B. Granger, Esquire
Bureau of Investigation and Enforcement
Commonwealth of Pennsylvania
PA Public Utility Commission
P. O. Box 3265
Harrisburg, PA 17105-3265

Jerome D. Mierzwa
Exeter Associates, Inc.
10480 Little Patuxent Parkway
Suite 300
Columbia, MD 20144
Consultant for OCA

Lauren M. Burge, Esquire
Aaron J. Beatty, Esquire
Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923

Robert D. Knecht
Industrial Economics Incorporated
2067 Massachusetts Avenue
Cambridge, MA 02140
Consultant for OSBA

Steven C. Gray, Esquire
Office of Small Business Advocate
300 North Second Street, Suite 202
Harrisburg, PA 17101

Date: August 10, 2018


Devin T. Ryan, Esquire