

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	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)	:	

RECOMMENDED DECISION

Before
Steven K. Haas
Andrew M. Calvelli
Administrative Law Judges

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, 2018, for recovery of purchased gas costs is \$3.9816 per Mcf. The rate proposed by the company and agreed to in the settlement is \$3.7106 per Mcf. The propose rate reflects a decrease of \$0.2710 from the current rate.

HISTORY OF THE PROCEEDING

On May 1, 2018, UGI Utilities, Inc. - Gas Division (UGI), UGI Central Penn Gas, Inc. (CPG) and UGI Penn Natural Gas, Inc. (PNG or 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-2018-3001632 only.

On May 11, 2018, the Pennsylvania Office of Consumer Advocate (OCA) filed a Notice of Appearance and Formal Complaint in this proceeding.

On May 11, 2018, the Office of Small Business Advocate (OSBA) filed a Notice of Appearance and Formal Complaint in this proceeding.

On May 15, 2018, 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, 2018. The proposed PGC tariff has a proposed effective date of December 1, 2018.

A Prehearing Conference was scheduled for June 21, 2018. A prehearing order was issued on May 31, 2018, 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 18, 2018. Each party complied with this directive by filing a timely prehearing memo.

The Prehearing Conference was held as scheduled with the following counsel appearing: Devin Ryan on behalf of the UGI companies, Aron Beatty on behalf of the OCA, Elizabeth Rose Triscari on behalf of the OSBA and Scott Granger on behalf of I&E. At the Prehearing Conference, PNG identified 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 25, 2018. Evidentiary hearings were scheduled for July 30 and 31, 2018. 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 July 3, 2018,

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 August 8, 2018.

Prior to the evidentiary hearing on July 30, 2018, the parties informed the ALJs that they had reached a full settlement of all issues in this proceeding. The hearing was held as scheduled on July 30, 2018, 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 and OCA submitted a Stipulation in Settlement of Section 1307(f) Rate Investigation (Settlement) and statements in support of the Settlement on August 10, 2018. OSBA filed documentation with the Commission wherein it stated that it did not oppose the settlement. The record closed upon receipt of the Stipulation.

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, 66 Pa.C.S. § 1307(f), 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. § 309-2.

3. The Commission's Bureau of Investigation and Enforcement (I&E) serves as the prosecutorial 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 (OSBA) is authorized and directed to represent the interests 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. PNG, I&E and the OCA executed and filed a complete Stipulation in Settlement. OSBA filed a letter in which it stated it did not oppose the settlement.

SETTLEMENT TERMS

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]

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.

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.

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.

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.

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.

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.

[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. York Water Company*, 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 Company, OCA and I&E, after extensive discovery and negotiations, have signed an agreement that fully resolves all outstanding issues in this proceeding. OSBA stated it has no opposition to the Settlement.

In addition to the obvious benefits of avoiding the expense of full litigation, the public interest is met by a determination that the statutory requirements of the Public Utility Code have been met. For the reasons set forth in more detail in the following discussion,

approval of the Settlement is recommended because this Settlement resolves the issues in this case, fairly balances the interests of 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) The utility has fully and vigorously represented the interests of its ratepayers in proceedings before the Federal Energy Regulatory Commission [FERC].

(2) 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) 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.

(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).

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

(1) 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.

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

(3) 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.

66 Pa.C.S. § 1318(b).

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's 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.

Pre-filing information, Section 3.

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.

Pre-filing information, Section 5.

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 2017 through March 2018, 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 2017-2018 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. 66 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 a design day figure of 893,166 Dth, which included a 7,562 Dth capacity requirement, 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 sendout day of the most recent winter and extrapolated to design day conditions.

In its prepared testimony, 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 Statement No. 1, pp. 2, 5). After reviewing all testimony and following extensive negotiations, OCA ultimately accepted PNG's design day forecasts because the alternative methodologies it considered did not produce significantly different results. No other party challenged PNG on this issue.

Under the settlement, the parties agree that PNG will be permitted to use a design day figure of 893,166 Dth, pursuant to the peak day and capacity reserve requirements in its proposal.

Although PNG and OCA used different methods of calculating the Company's design day forecast, the two methods resulted in similar results, thereby satisfying OCA's concerns about the accuracy of basing a peak day demand calculation on a single day. This settlement term constitutes a reasonable compromise on this issue that addresses the concerns raised by the parties and is in the public interest.

Award of Call Option Delivered Supply Service

PNG issued a Request for Proposal (RFP) on April 27, 2018 for a delivered supply service, that would provide the Company the option to call upon the service from zero to a maximum daily quantity of 26,311 Dth per day on a daily or monthly basis. UGI Energy Services, LLC (UGIES) was the only company to respond to the RFP. PNG selected the UGIES bid. PNG subsequently clarified in rebuttal testimony that it required 36,169 Dth of delivered service for the upcoming winter. UGIES submitted a revised bid for the corrected quantity and remained the Company's selection as the successful bidder.

PNG agreed, in consideration of concerns raised by Vice Chairman Place in last year's UGI companies' purchased gas cost proceedings about the competitive structure of its RFPs¹, to increase the number of suppliers that receive its RFPs in the future and to lengthen the term of its RFPs. The other parties do not oppose the award of this contract to UGIES.

The settlement of this issue followed extensive negotiation among the parties. Acceptance of the UGIES bid insures that PNG's requirements are being met while improving the competitive structure of its RFPs. The Settlement reflects consideration of this issue by the parties and represents a reasonable compromise that is in the public interest.

Peaking Contract Modifications

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.

¹ Statement of Vice Chairman Place, *Pa. Pub. Util. Comm'n v. UGI*, Docket No. R-2017-2602638 (Oct. 5, 2017).

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

Although PNG disagreed with I&E on this issue, the parties agreed that PNG will modify its RFPs for November 1, 2019 – October 31, 2020 peaking services. 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 more fully below under the heading "RFP Process." The parties further agreed that PNG will not be required to make any additional changes to its RFP process for its forthcoming RFP solicitation. PNG also agreed that it will provide to I&E and the OCA a representative example of the 2019 RFP when it is issued and the RFP responses during the 2019 purchase gas cost proceeding to all parties.

In commenting on the settlement, I&E stated, "[a]fter lengthy negotiations, the Parties reached a compromise and I&E believes the agreed upon Settlement terms reflect the amicable agreement among PNG and the Parties. . . . I&E supports the Settlement terms." (I&E Statement in Support, pp. 10-11).

This settlement term is reasonable and in the public interest and should be approved.

Truncation/Remaining Life Methodology

From December 2014 through November 2017, PNG used the “Truncation Method” to calculate quarterly PGC rate changes, 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. Under the settlement reached in PNG’s 2017 PGC proceeding, however, the Company’s current 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 projected 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.

I&E recommended in this proceeding that PNG return to the “Truncation Method” to calculate its quarterly PGC rate changes, arguing that the current method would result in increased over/under collections and the attendant interest that must be recovered in the subsequent PGC year via the E-factor.

After extensive negotiations, the parties have agreed that, for the 2018-2019 PGC year, PNG will be permitted to calculate its quarterly PGC rate change using the method approved in its 2017 PGC settlement, whereby PNG is permitted 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. Additionally, in its 2019 PGC filing, PNG will provide a two-year quarterly analysis comparing its methodology to I&E’s preferred methodology, which would require PNG 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. PNG will provide its analysis to the parties in native format with its PGC filing.

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 Release Program

The Commission approved the settlement of last year's PNG PGC proceeding. In approving that settlement, the Commission approved PNG's capacity release program for Rates DS and LFD. That settlement included a provision under which PNG agreed that it would not acquire capacity for the capacity release program in excess of participating transportation customer needs.

In its rebuttal testimony in this proceeding, PNG demonstrated that the Company did comply with its 2017 settlement obligation. Participation in the program is mandatory for Rate DS customers, and there were no Rate LFD customers participating in the program. Rate DS customers had individual customer daily firm requirements totaling 41,329 Dth during the review period. (PNG Statement No. 2-R, pp. 10-13). I&E and the OCA acknowledged in this proceeding that PNG had, in fact, complied with the 2017 settlement. (I&E statement in Support, p. 14; OCA Statement No. 1-SR, p. 6).

The resolution of this issue is reasonable and in the public interest.

RFP process

In its testimony, the OCA raised concerns about PNG's procedures for issuing RFPs and selecting successful bidders. In addition, in his Statement following Commission approval of the settlement of last year's PNG PGC proceeding, Vice Chairman Place also expressed concerns about PNG's RFP issuance and selection procedures, stating:

UGI repeatedly has issued Requests for Procurement (RFPs) under the same basic structure, with the same inherent result – a contract with its affiliates. It is unclear, from the record, whether this method is least cost. . . . I ask that UGI more thoroughly work with suppliers

to identify a means of improving the competitive structure of these RFPs.

Vice Chairman Place Statement, p. 2, *Pa. Pub. Util. Comm'n v. UGI*, Docket No. R-2017-2602627 (October 5, 2017).

The OCA recognized that PNG had modified certain procedures that increased the interest of potential bidders and promoted least cost procurement in response to concerns raised by Vice Chairman Place. (OCA Statement No. 1, p. 10). The OCA recommended, however, additional steps in this proceeding to improve PNG's RFP process. For example, OCA recommended that PNG explore options for reducing the time between the RFP due date and the contract award date. OCA also recommended that PNG explore options for providing potential bidders with more notice of its RFPs for capacity resources. (OCA Statement No. 1, p. 11).

Following extensive negotiations, the parties agreed as follows: 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 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.

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.

The parties agreed that the modifications agreed to by PNG address the concerns raised by Vice Chairman Place and the OCA. The OCA stated, “. . . these terms will improve PNG’s RFP process and will help ensure that the process is more competitive and is the least cost method.” (OCA Statement in Support, p. 4). Although I&E did not submit testimony on this issue, it stated, “[a]fter negotiations, the Parties reached a compromise and I&E believes the agreed upon settlement terms reflect an amicable agreement among PNG and the Parties. I&E also believes that the agreed upon terms provide guidance and stability to PNG, OCA and the Parties which are consistent with protecting the public interest.” (I&E Statement in Support, p. 16).

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

Other Terms

The Settlement contains the usual language regarding the effect of the Settlement and the effect if the Commission does not act in a timely manner. The Settlement states the following (original paragraph numbering retained):

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.

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 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” (PNG Statement in Support, p. 15). It continues, “[e]ach of the terms set forth in the Settlement resolves a dispute fairly and without the expense and uncertainty associated with litigation. PNG accordingly fully supports the Settlement and respectfully requests

Administrative Law Judges Steven K. Haas and Andrew M. Calvelli and the Commission to approve the Settlement without modification.” (PNG Statement in Support, p. 16).

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, pp. 16-17). 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 concluded, “[f]or the reasons set forth above, the OSBA respectfully submits that its complaint has been satisfied. Furthermore, the OSBA does not oppose the *Stipulation*.” (OSBA Statement in Non-Opposition, p. 3).

For all of the reasons set forth above, the proposed rates under the Settlement are just and reasonable because the utility is pursuing a least cost fuel procurement policy, consistent 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 and the Office of Consumer Advocate in the above-captioned case, filed at Docket Nos. R-2018-3001632, C-2018-3001822 and C-2018-3001827, which is not opposed by the Office of Small Business Advocate, is approved without modification.

2. That, on at least one day's notice after entry of the Commission's Final Order, 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, 2018.

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-2018-3001827 be deemed satisfied and marked 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-2018-3001822 be deemed satisfied and marked closed.

