

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2018-3001633
Office of Consumer Advocate	:	C-2018-3001806
Office of Small Business Advocate	:	C-2018-3001825
	:	
v.	:	
	:	
UGI Utilities, Inc. – Gas Division 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 \$5.8921 per Mcf. The rate proposed by the company and agreed to in the settlement is \$4.8304 per Mcf. The proposed rate represents a decrease of \$1.0617 from the current rate.

HISTORY OF THE PROCEEDING

On May 1, 2018, UGI Utilities, Inc. - Gas Division (UGI or Company), UGI Central Penn Gas, Inc. (CPG) and UGI Penn Natural Gas, Inc. (PNG) (collectively, UGI Companies) submitted their pre-filing preliminary information in support of their annual purchased gas cost tariffs (PGC) pursuant to 52 Pa. Code §§ 53.64 and 53.65. The three

proceedings were consolidated for litigation but not for decision. This Recommended Decision (RD) addresses the UGI filing at R-2018-3001633 only.

On May 11, 2018, the Office of Consumer Advocate (OCA) filed a Notice of Appearance, Formal Complaint, and Public Statement. Further, the Office of Small Business Advocate (OSBA) filed a Notice of Appearance, Formal Complaint, Public Statement, and Verification.

On May 15, 2018, the Commission's Bureau of Investigation and Enforcement (I&E) filed a Notice of Appearance.

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.

In its PGC filing, UGI proposed to implement a PGC rate of \$4.8304/Mcf for Rate Schedules R, N, and GL, effective December 1, 2018, which is a \$1.0617/Mcf decrease from the current PGC rate.

On June 12, 2018, the UGI Industrial Intervenors (UGIII) filed a Petition to Intervene.

On June 21, 2018, a Prehearing Conference was held before the undersigned ALJs. At the Prehearing Conference, UGI identified UGI Exhibit 1 consisting of the Company's Book 1 and Book 2 filings. In addition, UGIII's Petition to Intervene was granted at the Prehearing Conference.

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 the UGI Companies for purposes of discovery, hearing, and briefing but not for decision.

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.

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.

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.

The parties submitted a Stipulation in Settlement of Section 1307(f) of Rate Investigation (Settlement) and statements in support of the settlement on August 10, 2018. The record closed upon its receipt. The matter is now ripe for disposition.

FINDINGS OF FACT

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

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

3. The Commission's Bureau of Investigation and Enforcement 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 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. The parties have filed a complete Stipulation in Settlement, signed by the Company, OCA and I&E.

6. The OSBA and UGIII filed Letters of Non-Opposition to the Stipulation in Settlement on August 10, 2018.

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

17. The Company will be permitted to use a design day figure of 893,757 Dth, as proposed, pursuant to the peak day and capacity reserve requirements in its proposal.

AWARD OF PEAKING RFP

18. The Company provided the results of the Request for Proposal (“RFP”) for the peaking service for 40,573 Dth. UGI

Energy Services, LLC (“UGIES”) provided the only bid that conforms to the Company’s reliability standards and was selected as the winning bidder. Based on the analysis and consistent with the Company’s primary firm requirements and least-cost fuel procurement obligations, the Parties agree that they do not oppose the Company’s selection of the UGIES bid.

PEAKING CONTRACT MODIFICATIONS

19. 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, UGI will follow the RFP process described in Paragraphs 24 and 25. 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.

LNG ALLOCATION

20. The Company will be permitted to recover the cost of liquefied natural gas (“LNG”) facilities in use for the winter of 2017-2018 through its PGC rate based on PGC customer design day demand for the Carlisle area. This allocation provides for recovery through the PGC rate as follows: (a) 56.7 percent of LNG fixed costs; (b) 56.7 percent of LNG variable costs; and (c) 43.3 percent of the LNG commodity volumes multiplied by the monthly published Platt’s Inside FERC index for Texas Eastern Zone M-2 plus the associated transportation costs. The Parties agree that the Company may recover LNG costs not recovered through the PGC rate from non-competitive transportation customers via the Company’s Gas Delivery Enhancement Rider, approved by the Commission at Docket No. R-2017-2601900 (Order entered August 31, 2017).

TEXAS EASTERN CAPACITY

21. The Company agrees to pursue Texas Eastern Transmission, LP (“Texas Eastern”) expansion capacity and will acquire such capacity if prudent and in accordance with the Company’s least cost fuel procurement standards. The Company will also review existing contracts for replacement.

TRUNCATION/REMAINING LIFE METHODOLOGY

22. 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.

23. 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.

RFP PROCESS

24. 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 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.

25. 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 three public advocates and the UGIII, after extensive discovery and negotiations, have signed an agreement that fully resolves all outstanding issues in this proceeding.

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

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

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

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

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

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

Pre-filing information, Section 3.

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

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

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

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

Pre-filing information, Section 5.

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

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

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

UGI reports as follows:

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

Pre-filing information, Section 5.

UGI implements its least cost procurement strategy while balancing reliability and price stability by managing a portfolio of supplies from a diverse set of sources. During the 12-month historic period, April 2017 through March 2018, UGI purchased its supplies, including those utilized for storage injection, from producers and marketers. These purchases were delivered via Firm Transportation on ANR, Columbia, Dominion, Texas Eastern, and Transco; via direct supply from UGI Energy Services; or via peaking facilities directly connected to UGI's distribution system.

Supplies not selected in 2017-2018 fall outside two categories:

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

In making least cost supply decisions, all variable cost components including the cost of gas, the cost of transportation, and fuel costs are figured into the decision. Some judgment is required in these bid acceptances in matters such as transportation availability, delivery flexibility, producer reliability, available credit of the counterparty, and operational requirements. Attachment 2-A-1 is a listing of the transactions for firm purchases including the purchase location, quantity, and cost of gas. The table shows the transactions for the 12-month period ending March 31, 2018, as recorded in UGI's gas management system. In addition, Attachment 2-A-2 is a summary of all transportation activities scheduled by UGI on the interstate pipelines each month, including the receipt and delivery locations, quantity, and cost of transportation.

(2) UGI continually evaluates the market competitiveness of its term contracts. UGI regards term contracts as those having multiple months. The choice to maintain or terminate a contract is based on the performance of the supplier, price changes, fixed charges, location of the gas, capacity or cost changes on the connecting pipeline, the competitive nature of the commodity provisions, the ability to deliver the gas at pooling receipt points and the supply purchase requirements. These contracts are subject to firm deliverability requirements because they supply gas to firm residential and commercial customers with no alternative energy source. UGI's criteria for firm supply contract selection include, among other measures, competitive prices, prudent price renegotiation provisions, market-out provisions, deliverability warranties or contingencies, and to the extent possible, acceptable creditworthiness assurances and indemnification for liabilities beyond UGI's control.

Pre-filing information, Section 2.

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

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

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

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

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

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

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

7. Whether the utility or its affiliated interest has withheld from the market any gas supplies which should have been utilized as part of a least cost fuel procurement policy. 66 Pa.C.S. § 1318(b)(3).

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

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

DESIGN DAY

UGI projected a design day figure of 893,757 Dth, which included a 16,531 Dth capacity reserve 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 firm 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. 3, 5). After reviewing all testimony and following extensive negotiations, OCA ultimately accepted UGI's design day forecasts because the alternative methodologies it considered did not produce significantly different results. No other party challenged UGI on this issue.

Under the Settlement, the Parties agree that UGI will be permitted to use a design day figure of 893,757 Dth, pursuant to the peak day and capacity reserve requirements in its proposal.

Although UGI 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 PEAKING RFP

The Company provided the results of the Request for Proposal ("RFP") for the peaking service for 40,573 Dth. UGI Energy Services, LLC ("UGIES") provided the only bid that conforms to the Company's reliability standards and was selected as the winning bidder. Based on the analysis and consistent with the Company's primary firm requirements and least-cost fuel procurement obligations, the Parties agree that they do not oppose the Company's selection of the UGIES bid. (Stipulation at ¶ 18).

OCA witness Mierzwa expressed a number of concerns about UGI's process of issuing RFPs and selecting successful bidders. See OCA St. No. 1 at 6-11. Vice Chairman Place also raised issues with UGI's RFP process in his October 5, 2017 Statement. Vice Chairman Place Statement at 2, Pa. Pub. Util. Comm'n v. UGI, Docket No. R-2017-2602627 (Oct. 5, 2017); OCA St. No. 1 at 13-14. Vice Chairman Place stated that:

UGI repeatedly has issued Requests for Procurement (RFPs) under the same basic structure, with the same inherent result – a contract with its affiliate. It is unclear, from the record, whether this method is least cost . . . 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; OCA Statement in Support of Stipulation at p. 3.

While I&E did not submit written testimony addressing this issue, I&E shares the concerns articulated by OCA witness Jerome D. Mierzwa (OCA St. No. 1). Mr. Mierzwa questioned the reasonableness of the assumptions made by UGI in its calculation of the

incremental cost associated with the commodity pricing zones (OCA St. No. 1, pp. 6-11) as well as the ultimate decision to award the RFP to UGI affiliate UGIES (*Id.*). Mr. Mierzwa also noted the concerns raised by Vice Chairman Place, especially his concerns regarding whether the capacity resources reserved to meet the send-out requirement demands of firm customers were reasonable given the actual send-out requirements of firm customers (*Id.* at 12-13).

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. (UGI Statement No. 2-R, p. 20) 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. (UGI Statement No. 2-R, p. 21; UGI Statement in Support of Stipulation at 2-3).

After lengthy negotiations, the Parties reached a compromise. The Parties believe that the agreed upon Settlement terms reflect an amicable agreement among themselves and that the Settlement is the result of compromises by the Parties. (I&E Statement in Support of Stipulation at p. 9; UGI Statement in Support of Stipulation at p. 5).

We find this settlement term constitutes a reasonable compromise that addresses the various concerns raised by the Parties and is in the public interest. The settlement term avoids continued litigation on this issue and conserves Commission resources. The settlement term also is designed to minimize adverse impact on PGC customers.

PEAKING CONTRACT MODIFICATIONS

The Company 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, UGI will follow the RFP process described in Paragraphs 24 and 25 of the settlement. 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. (Stipulation at ¶ 19).

I&E raised this issue in its direct testimony (I&E St. No. 1, pp. 5-7) and its surrebuttal testimony (I&E St. No. 1-SR, pp. 4-7). I&E argued that removal of the November payment from the five-month peaking contract payment schedule (November through March) to the peaking service provider (UGIES) will serve to reduce the substantial under-collection at the beginning of every UGI PGC year (I&E St. No. 1, pp. 5-6). The mismatch of costs versus revenue causes the large under-collection and contributes to a larger E-factor (*Id.*, pp. 5-6; I&E St. No. 1-SR, pp 3-4). I&E recommends spreading the peaking contract payments equally across a four-month payment schedule (December through March) (I&E St. No. 1, pp. 6-7; I&E St. No. 1-SR, p. 3).

The Company argued that varying the peaking contract payment schedule would unfavorably impact ratepayers due to the higher interest weighting factor in December versus November (UGI St. No. 1-R, pp. 3-4). The Company also argued that the November payment does not lead to a large under-collection, because a mismatch in November or in any month gets smoothed out since the reconciliation process is based on the full 12-month cycle (UGI St. No. 2-R, pp. 2-3). Further, the Company argues that while the Company could issue RFP's without the November payment in the payment schedule, that would result in higher peaking contract bids, and in the end, do harm to PGC customers (*Id.*).

After lengthy negotiations, the Parties reached a compromise. The Parties believe that the agreed upon Settlement terms reflect an amicable agreement among themselves, and that the Settlement is the result of compromises by the Parties. (I&E Statement in Support of Stipulation at p. 11; UGI Statement in Support of Stipulation at pp. 6-7).

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

avoids continued litigation on this issue and conserves Commission resources. The settlement term also is designed to minimize adverse impact on PGC customers.

LIQUEFIED NATURAL GAS ALLOCATION

The Company will be permitted to recover the cost of liquefied natural gas (“LNG”) facilities in use for the winter of 2017-2018 through its PGC rate based on PGC customer design day demand for the Carlisle area. This allocation provides for recovery through the PGC rate as follows: (a) 56.7 percent of LNG fixed costs; (b) 56.7 percent of LNG variable costs; and (c) 43.3 percent of the LNG commodity volumes multiplied by the monthly published Platt’s Inside FERC index for Texas Eastern Zone M-2 plus the associated transportation costs. The Parties agree that the Company may recover LNG costs not recovered through the PGC rate from non-competitive transportation customers via the Company’s Gas Delivery Enhancement Rider, approved by the Commission at Docket No. R-2017-2601900 (Order entered August 31, 2017). (Stipulation at ¶ 20).

Both OCA witness Mierzwa and Vice Chairman Place’s Statement raised concerns about whether LNG costs “should be allocated as distribution costs recoverable in distribution rates, or whether these costs should be allocated as supply costs recoverable in PGC rates,” given that temporary LNG is being used to support UGI’s distribution system. Vice Chairman Place Statement at 2; OCA St. No. 1 at 14-15; OCA St. No. 1-SR at 1-2.

OCA states that the Stipulation at ¶ 20 addresses the OCA’s concern by allowing only the appropriate portion of these costs to be recovered through PGC rates. The OCA submits that this resolution is reasonable and in the public interest. (OCA Statement in Support of Stipulation at p. 6).

While I&E did not submit written testimony addressing this issue, I&E shares the concerns articulated by OCA witness Jerome D. Mierzwa (OCA St. No. 1). Mr. Mierzwa noted that UGI incurred LNG costs during the winter of 2017-2018 to support its distribution system while the Company pursued distribution system improvements in the Carlisle area (*Id.*, p. 14).

Mr. Mierzwa also noted that Vice Chairman Place noted that UGI would be using LNG to reinforce its distribution system rather than supply its distribution system; and that he did not endorse recovery of LNG costs that are incurred to support the UGI distribution system as a purchased gas cost (*Id.*). (I&E Statement at p. 12).

After lengthy negotiations, the Parties reached a compromise. The Parties believe that the agreed upon Settlement terms reflect an amicable agreement among themselves, and that the Settlement is the result of compromises by the Parties. (I&E Statement in Support of Stipulation at p. 12; UGI Statement in Support of Stipulation at p. 9). We find this settlement term constitutes a reasonable compromise that addresses the various concerns raised by the parties and is in the public interest. The settlement term avoids continued litigation on this issue and conserves Commission resources. The settlement term also is designed to minimize adverse impact on PGC customers.

TEXAS EASTERN CAPACITY

The Company agrees to pursue Texas Eastern Transmission, LP (“Texas Eastern”) expansion capacity and will acquire such capacity if prudent and in accordance with the Company’s least cost fuel procurement standards. The Company will also review existing contracts for replacement. (Stipulation at ¶ 21).

While I&E did not submit written testimony addressing this issue, I&E shares the concerns articulated by OCA witness Jerome D. Mierzwa (OCA St. No. 1). Mr. Mierzwa noted in his discussion of the awarding of the 40,573 Dth peaking service contract to UGIES that he would also recommend that UGI pursue the options of acquiring Texas Eastern expansion capacity and explore including said capacity in its capacity resource portfolio (*Id.*, p. 11). The Company considered OCA’s testimony and the Parties agreed upon Settlement terms which I&E believes reflect an amicable agreement among UGI and the Parties. Further, I&E recognizes that this Settlement is the result of compromises by the Company, I&E and the Parties. I&E supports the Settlement terms. (I&E Statement in Support of Stipulation at p. 13). UGI also supports the Settlement terms (UGI Statement in Support of Stipulation at p. 10).

We find this settlement term constitutes a reasonable compromise that addresses the various concerns raised by the parties and is in the public interest. The settlement term avoids continued litigation on this issue and conserves Commission resources. The settlement term also is designed to minimize adverse impact on PGC customers.

TRUNCATION/REMAINING LIFE METHODOLOGY

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. (Stipulation at ¶ 22).

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. (Stipulation at ¶ 23).

I&E recognizes that in last year's settlement ("2017 I&E Statement in Support"),¹ the Parties recognized a recent Commission decision in the National Fuel Gas Distribution Corporation purchased gas cost proceeding at Docket R-2017-2582461 (2017 I&E Statement in Support, pp. 22-23); and, in order to reduce rate volatility, the Parties did not oppose the Company using the methodology approved by the Commission in UGI's 2001 PGC proceeding

¹ See Bureau of Investigation and Enforcement Statement in Support of Stipulation in Settlement of 1307(f) Rates Investigation, Docket No. R-2017-2602638.

(*Id.*). Further, the parties agreed that the Company will keep in effect the current cap on quarterly rate changes as set forth in its tariff of 15% for September 1st; and 25% for December 1st, March 1st, and June 1st (*Id.*, p. 23). Finally, I&E stated in the 2017 settlement that it would continue to monitor UGI's quarterly PGC rate change methodology and volatility (*Id.*, p. 25); and, the parties agreed that the 2017 settlement was presented without prejudice to the positions that any of the parties may advance in future UGI proceedings (*Id.*, p 26, ¶ 18) (I&E Statement at p. 19).

After lengthy negotiations, the Parties reached a compromise and I&E believes the agreed upon Settlement terms reflect an amicable agreement among UGI and the Parties. Even though I&E prefers the remaining life methodology over the annual basis, I&E recognizes that this Settlement is the result of compromises by I&E and the Parties. I&E reserves the right to review the results of the two-year quarterly analysis comparing the two methodologies. Further, I&E recognizes this settlement does not necessarily represent the position(s) that would be advanced by I&E or the other Parties in the event this proceeding were to be fully litigated. I&E supports the Settlement terms. (I&E Statement in Support of Stipulation at p. 15).

UGI notes that 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. (UGI Statement in Support of Stipulation at pp. 12-13).

We find this settlement term constitutes a reasonable compromise that addresses the various concerns raised by the parties and is in the public interest. The settlement term avoids continued litigation on this issue and conserves Commission resources. The settlement term also is designed to minimize adverse impact on PGC customers.

RFP PROCESS

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 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. (Stipulation at ¶ 24).

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. (Stipulation at ¶ 25).

OCA witness Mierzwa expressed a number of concerns about UGI's process of issuing RFPs and selecting successful bidders. See OCA St. No. 1 at 6-11. Vice Chairman Place also raised issues with UGI's RFP process in his October 5, 2017 Statement. Vice Chairman Place Statement at 2; OCA St. No. 1 at 13-14. Vice Chairman Place stated that:

UGI repeatedly has issued Requests for Procurement (RFPs) under the same basic structure, with the same inherent result – a contract with its affiliate. It is unclear, from the record, whether this method is least cost . . . 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 at 2; OCA Statement in Support of Stipulation at p. 3.

While I&E did not submit written testimony addressing this issue, I&E shares the concerns articulated by OCA witness Jerome D. Mierzwa (OCA St. No. 1). Mr. Mierzwa questioned the reasonableness of the assumptions made by UGI in its calculation of the incremental cost associated with the commodity pricing zones (OCA St. No. 1, pp. 6-11) as well as the ultimate decision to award the RFP to UGI affiliate UGIES (*Id.*). Mr. Mierzwa also noted the concerns raised by Vice Chairman Place, especially his concerns regarding whether the capacity resources reserved to meet the send-out requirement demands of firm customers were reasonable given the actual send-out requirements of firm customers (*Id.*, pp. 12-13).

I&E noted that, after lengthy negotiations, the Parties reached a compromise and I&E believes the agreed upon Settlement terms reflect an amicable agreement among UGI and the Parties. Further, I&E recognizes that this Settlement is the result of compromises by I&E and the Parties and it does not necessarily represent the position(s) that would be advanced by I&E or the other Parties in the event this proceeding were to be fully litigated. I&E supports the Settlement terms. (I&E Statement in Support of Stipulation at p. 17).

UGI notes that the 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. (UGI Statement in Support of Stipulation at p. 15).

We find this settlement term constitutes a reasonable compromise that addresses the various concerns raised by the parties and is in the public interest. The settlement term avoids continued litigation on this issue and conserves Commission resources. The settlement term also is designed to minimize adverse impact on PGC customers.

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):

36. 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.

37. 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.

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

39. 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.

40. 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.

41. 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.

42. 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.

43. 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, UGI states “[a]s explained above, the Settlement is in the public interest and should be approved. The Settlement was achieved only after considerable investigation of UGI’s gas procurement practices, through both discovery and submission of testimony by a number of parties.” (UGI Statement in Support of Stipulation at p. 19). UGI further states that 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. Id. UGI also notes that 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. UGI 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. Id.

I&E represents that all issues raised in testimony have been satisfactorily resolved through discovery and discussions with the Company or are incorporated or considered in the resolution proposed in the Settlement. (I&E Statement in Support of Stipulation at p. 17). I&E further notes that the very nature of a settlement requires compromise on the part of all parties, and that the Settlement exemplifies the benefits to be derived from a negotiated approach to resolving what can appear at first blush to be irreconcilable regulatory differences. Id. I&E also states that the Parties have carefully discussed and negotiated all issues raised in this proceeding,

and specifically those addressed and resolved in this Settlement, and that further line-by-line identification of the ultimate resolution of the disputed issues beyond those presented in the Settlement is not necessary as I&E represents that the Settlement maintains the proper balance of the interests of all parties. Id. at pp. 17-18. I&E is satisfied that no further action is necessary and considers its investigation of this 1307(f) filing complete. Id. at p. 18.

The OCA states that the Settlement resolves all issues regarding UGI Utilities, Inc. - Gas Division's annual reconciliation of purchased gas cost (PGC) rates. It is the OCA's position that the proposed Settlement is in the public interest. (OCA Statement in Support of Stipulation at p. 1).

The OSBA and UGIII each filed Letters of Non-Opposition to the Settlement on August 10, 2018.

For all the reasons set forth above, we conclude that the proposed rates under the Stipulation 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 being in the public interest.

CONCLUSIONS OF LAW

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

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

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

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

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

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

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

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

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

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

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

ORDER

THEREFORE,

IT IS RECOMMENDED:

1. That the Settlement among UGI Utilities, Inc. – Gas Division, the Pennsylvania Public Utility Commission’s Bureau of Investigation and Enforcement and the Office of Consumer Advocate in the above-captioned case, filed at Docket Nos. R-2018-3001633, C-2018-3001806 and C-2018-3001825, which is not opposed by the Office of Small Business Advocate or the UGI Industrial Intervenors, is approved without modification.

2. That, on at least one day’s notice after entry of the Commission’s Final Order, UGI Utilities, Inc. – Gas Division 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 Utilities, Inc. – Gas Division's December 1 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 these proceedings at Docket No. C-2018-3001825 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 these proceedings at Docket No. C-2018-3001806 be deemed satisfied and marked closed.

5. That upon acceptance and approval by the Commission of the tariff supplement and supporting data filed by UGI Utilities, Inc. – Gas Division, as being consistent with this Order and the Stipulation in Settlement of Section 1307(f) Rate Investigation, pursuant to 66 Pa.C.S.A. § 1307(f), the inquiry and investigation at Docket No. R-2018-3001633 be terminated and the docket marked closed.

Date: September 17, 2018

/s/
Steven K. Haas
Administrative Law Judge

/s/
Andrew M. Calvelli
Administrative Law Judge