

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

**UGI Central Penn Gas Inc., UGI  
Penn Natural Gas, Inc., and  
UGI Utilities Inc – Gas Division**

**Public Meeting: October 25, 2018  
3001631-ALJ, 3001632-ALJ, and  
3001633-ALJ  
Docket Nos. R-2018-3001631, et al., R-  
2018-3001632, et al., and  
R-2018-3001633, et al.**

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

Before us for consideration are the annual purchased gas cost tariffs (PGC) of UGI Central Penn Gas, Inc. (CPG), UGI Penn Natural Gas, Inc. (PNG or the Company) and UGI Utilities, Inc. - Gas Division (UGI or collectively, UGI Companies), as amended by the Stipulation in Settlement of Section 1307(f) Rate Investigation (Settlement) filed August 10, 2018. The Settlement provisions in these cases were submitted to Administrative Law Judges (ALJs) Steven K. Haas and Andrew M. Calvelli for review and approval. The ALJs have recommended approval of the annual purchased gas cost tariff filing as amended by the Settlement. I concur.

While I approve the Settlements in the above-captioned cases, I wish again to draw attention to several issues which I request that the parties more thoroughly address in the future. First, two of these proceedings demonstrate rather high under or over collections, which resulted in E-factors which were approximately 5.0% and 7.4% of the calculated C-factors, respectively for UGI and CPG. Given the elimination of migration riders, it is critical that the UGI Companies continue to strive to do a better job in reducing these E-factors so that proper cost allocation is achieved, and retail choice decisions reflect accurate market prices. In particular, I am interested in what role the November peaking-contract payment provisions, and the truncation/remaining life provisions of the Settlement can do to improve these revenue and expense imbalances.

Secondly, I remain concerned about the amount of firm capacity being purchased, how supply is covered, and what methods are used to distribute gas to the Companies' new and expanding load. More specifically, for PNG, the design requirement for service to PGC and Choice customers represent a reserve of 19% relative to historic peak day usage, including PNG's proposed reserve margin.<sup>1</sup> For UGI, the calculated peak day capacity reserve, based on actual historical day peak usage, is 33% and 38% for PGC and Choice customers, respectively. I request that the parties examine these high actual reserve margins and provide a comprehensive explanation for the peak day requirements and the corresponding costs associated with these procurements.

As noted above, I have expressed concern about the method of procurement for these consistently increasing peak supply requirements. The Companies did make some adjustments to procurement of peaking capacity in response to my previous statement, such as increasing the number of suppliers that receive Request for Proposals (RFPs) by including, on a going-forward basis, those entities with which the Companies negotiate a North American Energy Standards Board agreement, lengthening the term of its RFPs, as

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<sup>1</sup> Includes projected reserved capacity of 270,495 Dth/d for PGC customers, 31,974 Dth/d for Choice customers, and additional reserves of 7,562 Dth/d, relative to historical peak day usage of 302,000 Dth/d.

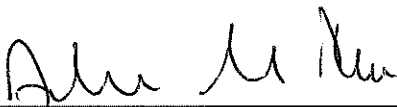
the traditional one to five-year service agreements that the Companies had been entering into were perhaps insufficient in length to interest certain suppliers. Lastly, the Companies have considered alternate start dates to provide suppliers with a better opportunity to forecast demand and develop their portfolios.

I am also encouraged that the Companies are considering additional changes to incent more product bid participation, as approved in the Settlement. These additional steps include pursuit of additional pipeline capacity on Texas Eastern Transmission Company, and more advanced notice of firm capacity requirements. UGI 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 Companies 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.

However, I remain concerned that the analysis of the acquisition of upstream capacity on UGI, versus the acquisition of delivered firm peaking contract supplies, predominantly through its affiliate, falls short of the mark. Specifically, the failure of the Companies to recognize future capacity release revenues or off-system sales margins related to the acquisition of firm capacity assets, does not appear to be a reasonable approach. While it may be true, as noted by the Company's witness, that such revenues can be variable, that does not mean such revenues should be ignored. I thank the Office of Consumer Advocate for highlighting this issue.<sup>2</sup>

Lastly, the UGI Companies have, at times, utilized temporary Liquefied Natural Gas supplies (LNG) to support their distribution systems. Historically, PNG has used LNG to maintain service to certain customers taking service from low pressure mains during severe weather conditions that cause high demand and pressure reductions to those systems. It appears that LNG is being used to "support" the distribution system – not to "supply" the distribution system. In short, LNG is becoming synonymous with distribution pipe. This situation poses the question of whether such costs should be allocated as distribution costs recoverable in distribution rates, or whether these costs should be allocated as supply costs recoverable in PGC rates. While the Settlement for UGI permits the collection of some of these LNG costs related to system support for the Carlisle area from PGC customers, I remain concerned if such cost allocations become mainstream. At this time, it does not appear that the Companies will be relying on mobile LNG facilities to hold up system deliveries for the projected 12-month PGC period.

**DATE: October 25, 2018**

  
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**Andrew G. Place, Vice Chairman**

<sup>2</sup> OCA Statement No. 1-SR at 8.