

HISTORY OF THE PROCEEDING

On August 21, 2018, UGI Electric filed a petition with supporting written direct testimony and exhibits which sought Commission approval of its voluntary Phase III EE&C Plan for the period of June 1, 2019 through May 31, 2024.

On September 7, 2018, the Office of Small Business Advocate (OSBA) filed a notice of appearance, public statement, answer and verification in this matter.

On September 10, 2018, the Office of Consumer Advocate (OCA) filed a notice of intervention, public statement and answer in this matter.

On September 19, 2018, a prehearing order was issued scheduling a prehearing conference in this matter for October 10, 2018 and directing the parties to file prehearing memoranda on or before October 5, 2018.

On September 26, 2018, the Commission on Economic Opportunity (CEO) filed a petition to intervene in this matter.

On October 4, 2018, OSBA filed its prehearing memorandum.

On October 5, 2018, UGI Electric, OCA, and CEO filed their prehearing memoranda.

On October 10, 2018, the prehearing conference in this matter was conducted as scheduled. The parties agreed to a procedural schedule and certain modifications to the rules of discovery. No party offered an objection to CEO's petition to intervene in this matter.

On October 12, 2018, a hearing notice was issued scheduling the in-person evidentiary hearing for 10:00 AM on December 19, 2018, in Harrisburg, Pennsylvania. A scheduling order was also issued which adopted the procedural schedule agreed to by the parties

at the prehearing conference, established modified discovery rules and granted CEO's petition to intervene in this matter.

On November 6, 2018, OCA, OSBA, and CEO served their written direct testimony and exhibits.

On November 28, 2018, UGI Electric served its written rebuttal testimony and exhibits.

On December 12, 2018, OCA and OSBA served their written surrebuttal testimony and exhibits.

On December 17, 2018, UGI Electric filed a petition for protective order.

On December 18, 2018, the parties advised the presiding officer that they had reached a settlement in principle. As a result, it was decided that the evidentiary hearings in this matter would be canceled and the parties' written testimony and exhibits could be admitted into the record by stipulation. The parties were directed to file a joint petition for settlement and statements in support by the scheduled reply brief due date of January 31, 2019.

On December 20, 2018, an order granting the petition for a protective order in this matter was issued.

On January 31, 2019, the parties (Joint Petitioners) filed the joint petition for settlement and statements in support as agreed. The Joint Petitioners have been able to agree to a settlement of all issues and in full agreement that the settlement is in the best interests of UGI Electric and its customers. The settlement is set forth below.

In addition, a joint stipulation for admission of evidence was also filed on this date. The stipulation requests admission into the record of:

UGI Electric's Testimony and Exhibits

- UGI Electric Exhibits 1 and 2.
- UGI Electric Statement No. 1 – Direct Testimony of Theodore M. Love, including UGI Electric Exhibit TML-1.
- UGI Electric Statement No. 2 – Direct Testimony of Tracy A. Hazenstab, including UGI Electric Exhibit TAH-1.
- UGI Electric Statement No. 1-R – Rebuttal Testimony of Theodore M. Love, including UGI Electric Exhibit TML-1R through TML-6R.

OCA's Testimony and Exhibits

- OCA Statement No. 1 – Direct Testimony of Stacy L. Sherwood, including Attachment A, and a signed verification.
- OCA Statement No. 1-SR – Surrebuttal Testimony of Stacy L. Sherwood and a signed verification.

OSBA's Testimony and Exhibits

- OSBA Statement No. 1 – Direct Testimony of Robert D. Knecht, including Exhibits IEc-1 through IEc-3, and a signed verification.
- OSBA Statement No. 1-S – Surrebuttal Testimony of Robert D. Knecht, including Exhibit IEc-S1, and a signed verification.

CEO's Testimony and Exhibits

- CEO Statement No. 1 – Direct Testimony of Eugene M. Brady.

Verifications for UGI Electric's and CEO's testimony and exhibits were attached to the stipulation as Appendix A, whereas OCA's and OSBA's witnesses' verifications were attached to their pre-served testimony.

This stipulation will be granted as part of the ordering paragraphs below. The parties will be required to provide two copies of all documents referenced in the stipulation to the Commission's Secretary's Bureau for inclusion in the official record.

The record in this matter closed on January 31, 2019, the date the Joint Petitioners filed the joint petition for settlement and statements in support of that settlement.

The Joint Petitioners have indicated that they are able to agree to a settlement of all issues in these proceedings and that the settlement is in the best interests of UGI Electric and its customers. For the reasons set forth below it will be recommended that the Commission approve and adopt the settlement agreement without modification and approve UGI Electric's Phase III EE&C Plan as modified by the terms and conditions of the settlement.

DISCUSSION

UGI Electric has fewer than 100,000 customers and is therefore not formally subject to the energy efficiency requirements of Act 129 of 2008. 66 Pa.C.S. § 2806.1(1). It however seeks Commission approval of its voluntary Phase III EE&C Plan for the period of June 1, 2019 through May 31, 2024.

Commission policy promotes settlements. 52 Pa.Code § 5.231. Settlements lessen the time and expense the parties must expend litigating a case and at the same time conserve precious administrative hearing resources. The Commission has indicated that

settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding. 52 Pa.Code § 69.401.

In order to accept a settlement, the Commission must first determine that the proposed terms and conditions are in the public interest. Pa. Pub. Util. Comm'n v. York Water Co., Docket No. R-00049165 (Order entered October 4, 2004); Pa. Pub. Util. Comm'n v. C S Water and Sewer Assoc., 74 Pa. PUC 767 (1991).

For the following reasons it is found that the settlement, which is supported by each of the parties, is in the public interest.

TERMS OF THE SETTLEMENT

In the settlement, the parties agreed to resolve all outstanding issues and to seek Commission approval for the matters settled. The relevant terms of the settlement are as follows - paragraph numbers are listed as they appear in the original settlement filed with the Commission:

22. UGI Electric's Phase III EE&C Plan shall be approved for a five-year term with the condition that, after two years, if the Company has not met 75 percent of its forecasted energy savings for those first two years of the Plan (*i.e.*, 7,592 MWh x 0.75 = 5,694 MWh), or the Company has achieved 75 percent or more of its forecasted energy savings for those first two years and the Plan does not have a Total Resource Cost ("TRC") Test benefit-cost ratio above 1.0 for Plan Year ("PY") 1 and PY 2 total as calculated by August 30, 2021, the Company can either file a Petition to Amend its Plan or choose, in its sole discretion, to conclude the EE&C Plan after the first three years of Phase III. If the Company chooses to conclude the Phase III EE&C Plan after PY 3, UGI Electric will file a letter at this docket by December 1, 2021, advising the Commission and the parties that the Phase III EE&C Plan will conclude on May 31, 2022. If a Petition to Amend is filed under this paragraph, the parties agree that the Phase III EE&C Plan will remain in effect until such time as the Commission takes action on the Petition to Amend the Phase III EE&C Plan, or May 31, 2024, whichever is earlier.

23. The Emerging Technology and Outreach (“ETO”) Program will be eliminated, and the \$600,000 budget amount for the ETO Program will be redirected as follows:

a. UGI Electric will set aside approximately \$10,000 annually (a total of \$50,000 over five years) for community-based organization (“CBO”) marketing to cross-promote EE&C programs, such as the Appliance Recycling and Appliance Rebate Programs. Such costs shall only be recovered from Class 1 customers.

b. The Company will set aside \$140,000 to launch one or more residential customer programs in PY 2 through PY 5, including a residential low-income customer program by no later than June 1, 2020. The residential low-income program shall not be specifically limited to the measures offered under the three existing low-income programs that are being eliminated or phased out as part of the Phase III EE&C Plan. The residential low-income program will provide an opportunity for the Company to offer additional and/or different measures than those offered through the Company’s Low Income Usage Reduction Program (“LIURP”). The parties acknowledge that this low-income program is not LIURP and is not subject to the provisions of Chapter 58 of the Commission’s regulations. Such costs shall only be recovered from Class 1 customers.

c. The Company will set aside \$250,000 for evaluation, measurement, and verification. To the extent that the Phase III EE&C Plan is set to continue for the full five-year term per Paragraph 22, UGI Electric’s Phase III EE&C Plan shall be subject to a formal evaluation, measurement, and verification (“EM&V”) process after the third year of the Phase III EE&C Plan. The costs of the EM&V process will be allocated to the customer classes in the same manner as other portfolio-wide costs. To the extent that the Phase III EE&C Plan is set to end after PY 3 per Paragraph 22, then UGI Electric’s Phase III EE&C Plan shall not be subject to a formal EM&V process after the third year of the Phase III EE&C Plan, and the Company shall not incur any costs related to such EM&V process.

d. The remaining \$160,000 that was proposed to be included in an ETO Program budget will be eliminated.

24. At least 30 days prior to launching the residential and low-income program(s) discussed in Paragraph 23(b), UGI Electric shall provide a written notification to the Commission's Bureau of Technical Utility Services ("TUS") and the parties to Phase III EE&C Plan proceeding. The notification will include a description of the proposed program(s), projections for customer participation, expenses, cost-effectiveness, and details on how the program(s) will be evaluated and verified upon completion. The annual reports will detail the implementation of the program(s), findings from the program(s), and the Company's evaluation and verification of the program(s)' results.

25. UGI Electric shall continue to track and evaluate actual project savings for Phase II and Phase III C&I Custom Incentive projects in a manner similar to that presented this proceeding, such that the Company will be able to determine estimated annual pre-usage and estimated annual post-usage and then calculate the difference between pre- and post-usage to get realized savings, with the realization rate calculated by dividing this value by the projected savings for the project. The three methods the Company may use to determine pre- and post-usage are raw usage comparison, baseload usage comparison, and adjusted usage comparison.

26. The following cost limits shall be placed on the C&I Custom Incentive Program over the five-year term of the Phase III EE&C Plan: (1) overall incentive spending shall be limited to \$100 per first year MWh; and (2) overall non-incentive spending shall be limited to \$110 per first year MWh. UGI Electric's internal EE&C staff expenses are not assigned to the C&I Custom Incentive Program and, therefore, will not be included in the calculation of the annual non-incentive spending cost limit. These cost limits will be reflected in the Compliance version of the Phase III EE&C Plan. In addition, the Company will include the annual and Phase III to-date incentive and non-incentive spending values on a per first year MWh basis for the C&I Custom Incentive Program in its annual reports.

27. As part of the Phase III EE&C Plan, UGI Electric shall require that any rebate application in the Appliance Rebate Program or the C&I Custom Incentive Program be submitted within 180 days of the measure's installation date.

28. As part of its compliance filing in this proceeding, UGI Electric shall use, for all electric avoided costs, PPL Electric's electric avoided costs. To the extent that the Phase III EE&C Plan is set to continue for the full five-year term per Paragraph 22, UGI Electric shall, within three months following the Commission's issuance of its Phase IV TRC Test Order, file an update to its Phase III EE&C Plan with revised projections for PY 4 and PY 5 using the electric avoided costs established for PPL Electric for Phase IV of Act 129.

29. The Phase II EEC Rider tariff language will be modified such that overcollections or undercollections existing at the end of the last year of the Phase II EE&C Plan will be recovered/refunded over the one-year period following the end of the Phase II EE&C Plan. Any remaining balance will be recovered/refunded through the Phase III EEC Rider's E-Factor.

30. The Phase III EEC Rider tariff language will be modified such that overcollections or undercollections existing as of the last year of the Phase III EE&C Plan will be recovered/refunded over the one-year period following the end of the Phase III EE&C Plan ("Final Reconciliation Year"). If it is known that there will be a Phase IV EE&C Plan at the end of the Final Reconciliation Year related to Phase III, any remaining balance will be recovered/refunded through the Phase IV EEC Rider's E-Factor. If there will be no Phase IV EE&C Plan, any balance remaining for a customer class at the end of the Final Reconciliation Year will be trued up through a one-time bill credit issued to the applicable customers during the second full billing month following the end of the Final Reconciliation Year.

31. The Phase III EEC Rider tariff language will be modified to remove references to Rate IH, which was eliminated in the Company's recent base rate case, and to add Rate HTP to Class 3 in the Rider.

32. The Company will reflect an adjustment on Class 2 EE&C revenues in the amount of \$652,587 and GSR-1 default service revenues in the amount of (\$652,587) as part of the first default service and Phase II EEC Rider reconciliations that can be made in accordance with the Company's tariff following Commission approval of this Settlement. This \$652,587

adjustment amount relates to a reversal of the transfer of Class 2 over-recovery amounts of \$652,587 to the default service rates in January 2016. In addition, the Company will reflect an adjustment in Class 2 EE&C revenues in the amount of \$192,087, which consists of an adjustment to GSR-1 default service revenues in the amount of (\$124,008) and a (\$68,078) adjustment to GSR-1 default service deferred energy account, with such amounts being related to the correction for the March-May 2015 period.

CONDITIONS OF SETTLEMENT

The settlement reached by the parties is predicated upon certain conditions. The relevant terms of those conditions are as follows - paragraph numbers are again listed as they appear in the original settlement filed with the Commission:

33. This Settlement is conditioned upon the Commission's approval of the terms and conditions contained herein without modification. If the Commission modifies the Settlement, then any Joint Petitioner may elect to withdraw from this Settlement and may proceed with litigation and, 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 Joint Petitioners within five (5) business days after the entry of an order modifying the Settlement. The Joint Petitioners acknowledge and agree that this Settlement, if approved, shall have the same force and effect as if the Joint Petitioners had fully litigated this proceeding and that the rates established hereunder are Commission-made, just and reasonable rates.

34. This Settlement is proposed by the Joint Petitioners to settle certain issues in the instant proceeding. If the Commission does not approve the Settlement and the proceedings continue to further hearings, the Joint Petitioners reserve their respective rights to present additional testimony and to conduct full cross-examination, briefing and argument. The Settlement is made without any admission against, or prejudice to, any position which any Joint Petitioner may adopt in the event of any subsequent litigation of this proceeding.

35. This Settlement may not be cited as precedent in any future proceeding, except to the extent required to implement this Settlement.

36. This Settlement is being presented only in the context of this proceeding in an effort to resolve the proceeding in a manner which is fair and reasonable. The Settlement is the product of compromise. This Settlement is presented without prejudice to any position which any of the Joint Petitioners may have advanced and without prejudice to the position any of the Joint Petitioners may advance in the future on the merits of the issues in future proceedings except to the extent necessary to effectuate the terms and conditions of this Settlement.

37. Attached as Appendix "A" is the Statement in Support of the Settlement by UGI Electric setting forth the bases upon which the Company believes the Settlement is fair, just, and reasonable and, therefore, is in the public interest. The Statements in Support of Settlement by OCA, OSBA, and CEO are being filed separately.

38. If the ALJ adopts the Settlement without modification, the Joint Petitioners waive their rights to file Exceptions.

PUBLIC INTEREST

As noted above, it is the policy of the Commission to promote settlements. 52 Pa.Code § 5.231(a). The benchmark for determining whether a settlement should be approved is whether the proposed terms and conditions are in the public interest. The Joint Petitioners have indicated that they have been able to agree to a settlement of all issues and are in full agreement that the settlement they have reached is in the best interests of UGI Electric and its customers. In their statements of support, each party identified portions of the settlement most important to their constituents, the reasons for their support as well as support for the settlement as a whole being in the public interest.

Phase III Plan Term

OCA indicated in its statement of support that the settlement provides for the approval of the Phase III Plan for the proposed five-year term from June 1, 2019 through May 31, 2024 with the condition under Paragraph 22 of the settlement that:

...after two years, if the Company has not met 75 percent of its forecasted energy savings for those first two years of the Plan (i.e., 7,592 MWh x 0.75 = 5,694 MWh), or the Company has achieved 75 percent or more of its forecasted energy savings for those first two years and the Plan does not have a Total Resource Cost (“TRC”) Test benefit-cost ratio above 1.0 for Plan Year (“PY”) 1 and PY 2 total as calculated by August 30, 2021, the Company can either file a Petition to Amend its Plan or choose, in its sole discretion to conclude the EE&C Plan after the first three years of Phase III. If the Company chooses to conclude the Phase III EE&C Plan after PY 3, UGI Electric will file a letter at this docket by December 1, 2021, advising the Commission and the parties that the Phase III EE&C Plan will conclude on May 31, 2022. If a Petition to Amend is filed under this paragraph, the parties agree that the Phase III EE&C Plan will remain in effect until such time as the Commission takes action on the Petition to Amend the Phase III EE&C Plan, or May 31, 2024, whichever is earlier.

OCA St. in Supp. at 2-3, citing Settlement at ¶ 22.

OCA’s concern with the Plan related to UGI Electric’s projected program participation as compared to prior years, the longevity of the proposed program, and the cost-effectiveness of the residential portfolio should the projected targets not be met. OCA St. No. 1 at 9. OCA’s witness recommended that the Commission approve the Plan for a three-year program cycle, and if the programs were found to be cost-effective during those years, she recommended that the Commission offer an expedited approval for an additional two years. *Id.* at 9. OCA wished to ensure that “ratepayers are funding a cost-effective program.” *Id.* at 10.

OCA indicated that it supported the settlement as it felt these concerns had been addressed. OCA believes the settlement will provide a benchmark to review the Plan’s performance after Program Years 1 and 2. The review will determine whether UGI Electric is

meeting 75% of its forecasted savings or whether it is achieving a Total Resource Cost (TRC) test benefit-cost ratio of 1.0. Settlement at ¶ 22. OCA feels that the settlement will help to ensure that the program continues to be cost-effective as UGI Electric will either amend the Plan to implement new programs that are cost-effective, or it will conclude the program after Program Year 3. The OCA submits that this settlement provision will help to ensure that the programs in Phase III will continue to be cost-effective and therefore in the public interest.

Emerging Technology and Outreach (ETO)

The proposed Phase III Plan included a \$600,000 budget for an Emerging Technology and Outreach Program (ETO), which equaled approximately eight percent of the total five-year plan budget. OCA St. No. 1 at 16. The purpose of the ETO Program was to “promote new and emerging technologies and energy saving techniques” and “serve as a way for UGI Electric to test future program strategies and offerings that may eventually lead to additional stand-alone programs.” Plan at 35. The Plan however did not identify specific ETO programs. It provided examples of potential programs such as additional cross-platform marketing opportunities, pilots for solar heaters for manufactured homes, home energy reports, energy efficiency kits and an on-line audit. Plan at 36.

OCA’s concern centered on the lack of specificity in the ETO Program. OCA St. No. 1 at 16-18; OCA St. No. 1-SR at 6-8. OCA indicated that the terms of the settlement reached by the parties will eliminate the ETO Program entirely and re-direct the \$600,000 in proposed funds as follows: (1) \$10,000 annually (or a total of \$50,000 over five years) towards community based organizations that will promote the EE&C programs; (2) \$140,000 to launch one or more residential programs in PY 2 through PY 5, including a low-income program by no later than June 1, 2020¹; and (3) \$250,000 for evaluation, measurement and verification². Settlement at ¶ 23(a)-(c). The remaining \$160,000 budget would be eliminated. *Id.* at ¶ 23 (d).

¹ The Joint Petitioners’ support for the portions of the settlement which provide for the development of a low-income program will be discussed in subsequent paragraphs.

² The Joint Petitioners’ support for the portions of the settlement which provide for evaluation, measurement and verification will be discussed in subsequent paragraphs.

OCA supports that \$10,000 will be directed annually (\$50,000 over the life of the five-year program) towards community-based organizations that promote energy efficiency and conservation. It believes that community-based organizations are able to work directly with impacted consumers to inform them of the benefits of the programs and help to provide greater outreach for the program to be developed pursuant to Paragraph 23(b) of the settlement.

OSBA indicated that it had concerns about UGI Electric's ETO Program as well. Specifically, OSBA felt that it focused on emerging energy efficiency and conservation technologies that were not particularly appropriate for a small utility such as UGI Electric and that the costs of developing such new technologies are more appropriately left to equipment vendors. OSBA also felt that UGI Electric had a checkered history with programs targeted at the commercial sector which did not bode well for an experimental program targeted at small business customers. OSBA argued that commercial programs should not be included in the ETO Program. OSBA Statement No. 1, at 12-14. The settlement reached by the parties eliminates the ETO Program entirely – thereby eliminating OSBA's concerns.

Low-income Program

The settlement reached by the parties eliminated UGI Electric's proposed ETO Program. OCA indicated that the terms of the settlement re-direct \$140,000 of the funds originally budgeted to establish the ETO Program to instead launch one or more residential programs in PY 2 through PY 5 as well as a low-income program. This satisfied OCA's concern that in its Phase III Plan, UGI Electric proposed to eliminate or phase-out the three Phase II programs that required no cost for low-income customers to participate. OCA St. No. 1 at 1. Those Phase II programs included: (1) phase-out of the low-income customer participation in the Energy Efficient Lighting program for those in the UGI Electric Customer Assistance Program (CAP); (2) the Appliance Recycling Program; and (3) the program for Low Income Usage Reduction Program (LIURP) participants to replace an electric water heater with a natural gas water heater, if a natural gas line is already present in the home. OCA St. No. 1 at 11.

OCA points out that the settlement requires a low-income program to be implemented by June 1, 2020. Settlement at ¶ 23(b). Each of the Act 129 programs contain a low-income program component and the Phase III Act 129 programs establish a mandatory 5.5% target for the low-income programs. *See, Energy Efficiency and Conservation Program Implementation Order*, Docket No. M-2014-2424864 at 69 (Order entered June 19, 2015); *see also*, CEO St. No. 1 at 5-6. The settlement reached by the parties specifically states, “the residential low-income program will provide an opportunity for the Company to offer additional and/or different measures than those offered through the Company’s Low-Income Usage Reduction Program (LIURP).” Settlement at ¶ 23(b). The OCA believes that low-income customers should continue to benefit from the Phase III Plan at no cost to them and that the settlement addressing low-income programs will provide tangible benefits to such customers.

CEO also voiced its support for the settlement and in particular the inclusion of low-income programs in the Plan. CEO indicated that a low-income component beginning in Year 2 of the Plan will provide low-income customers with a greater ability to conserve energy and reduce their energy costs. Such measures would be in addition to any measures offered by UGI Electric under its Low-Income Usage Reduction Program. CEO further indicated that in the settlement UGI Electric provides funding for community-based organizations to market its EE&C Plan and the use of such organizations in marketing would increase the opportunity for low-income customers to benefit from the measures offered under the Plan. As such, CEO supports the settlement as a benefit to residential customers and in particular low-income customers.

Monitoring of Energy Savings

The settlement also provides for \$250,000 of the funds originally budgeted for the eliminated ETO Program to be used for inclusion of an evaluation, verification and measurement (EM&V) component in the Plan.

OCA indicated that the EM&V would be conducted after the third year of the Phase III EE&C Plan and would only be conducted if UGI Electric moves forward with a

Program Year 4. Settlement at ¶ 23(c). The concern voiced by OCA’s witness was that “[w]ithout a formal evaluation to verify the savings, the effectiveness of the programs is unclear.” OCA St. No. 1 at 16. OCA indicated that for example the reported energy savings may be over- or under-reported due to installation rates or usage assumptions. OCA St. No. 1 at 16. OCA therefore believes the EM&V proposal and budget would allow UGI Electric to more accurately evaluate the cost-effectiveness of the program and ensure the integrity of the program going-forward.

OSBA also supports inclusion of a formal EM&V process in the Plan. OSBA’s witness raised concerns that in UGI Electric’s last EE&C proceeding, the OSBA was concerned that the engineering estimates of energy savings in the EE&C Plan were inaccurate and potentially overstated, particularly since a formal EM&V process was not incorporated into the plan. In that proceeding, OSBA indicated that the settlement included a provision that required the monitoring of actual savings related to the Commercial Custom Incentive Program (CCIP) as compared to forecast savings.

OSBA believes that the settlement addresses its concerns by mandating a formal EM&V process after three years of Phase III if the Plan continues, and by specifying that UGI Electric will continue to compile and evaluate CCIP actual cost savings using the methodology presented in OSBA-I-5. Settlement at ¶¶ 23(c) and 25.

Avoided Costs

OSBA stated that the avoided cost of electricity determined the economic benefit associated with load and peak demand reductions in EE&C programs and that reason the Commission established very specific rules as to how such avoided costs should be calculated. OSBA’s witness provided testimony that UGI Electric’s avoided cost methodology with respect to energy costs, capacity cost inflation, and Transmission and Distribution (T&D) costs were inconsistent with specific Commission requirements and generally overstated avoided costs. OSBA Statement No. 1, at 17-22.

OSBA indicated that this concern is addressed by the settlement by modifying the plan to rely on the PPL Electric (a neighboring utility with a common transmission interconnection) Phase III avoided cost, which will be updated to the PPL Electric Phase IV avoided costs if the UGI Electric plan extends beyond three years. Settlement at ¶ 28.

Combined Heat and Power (CHP) / Fuel Switching

OSBA indicated that it has a continuing concern that UGI Electric has included the potential for CHP projects in previous EE&C plans. OSBA Statement No. 1, at 9. However, OSBA noted that UGI Electric has not pursued any CHP projects in the CCIP, and it is not incurring any related marketing costs. While CHP would remain an option within the flexible CCIP, there are no forecasted savings related to CHP in Phase III. OSBA Statement No. 1, at 10. OSBA indicated its support and feels that such an approach was not unreasonable.

OSBA voiced similar concerns regarding the issue of fuel switching. In the current proposed Plan, UGI Electric intends to shut down its separate fuel switching program and move the commercial portion of that program to the CCIP. OSBA St. No. 1, at 12. OSBA indicated that UGI Electric will continue to incur small marketing costs related to e-mail and bill inserts, fuel switching will remain as an option within the flexible CCIP and UGI Electric does not specifically forecast any savings related to CHP in Phase III. OSBA Statement No. 1, at 10. OSBA supports the terms of the settlement as it feels this limited level of activity to be reasonable.

EE&C Tariff Design

OSBA acknowledged that the EE&C tariff design contained in the proposed Plan was essentially unchanged from that approved by the Commission in UGI Electric's last EE&C proceeding. *See*, UGI Electric response to OSBA interrogatory I-14. However, OSBA asserted that a significant flaw existed in the previous approved tariff design. OSBA contends that any lagging variances in the EE&C charge are shifted to the default service variance account one year after the end of the EE&C phase. OSBA asserted that this was unreasonable because all

ratepayers are subject to the EE&C charge, but only non-shopping customers pay the default service charge, and the rate class definitions for EE&C classes are very different from those that apply to default service charges. OSBA St. No. 1-S, at 9-11.

OSBA indicated that these issues are addressed by the proposed settlement by modifying both the existing Phase II tariff language, and the Phase III tariff language, so that lagging variances are either transferred to the next EE&C Phase or recovered in a one-time bill charge/credit. OSBA indicates that this would eliminate the use of the default service charge as a catch-all for lagging variances. Settlement at ¶¶ 29 and 30.

Increase in Forecast Savings

OSBA indicated a concern regarding forecasts for Phase III energy savings levels in the CCIP. OSBA St. No. 1, at 15. OSBA believes that overstating energy savings could threaten the economic viability of the EE&C program if fixed costs are spread over fewer MWh saved. However, OSBA indicated that the settlement reached by the parties addresses that concern by specifying that the Phase III plan must achieve at least 75% of the forecast savings and keep the TRC Benefit-Cost ratio above unity. If those requirements are not met, UGI Electric will either stop the EE&C Program or submit a petition to amend the Plan. Settlement at ¶ 22. OSBA therefore supports this portion of the settlement.

Cost Sharing

OSBA's witness also raised a concern that the proposed CCIP utility costs (consisting of incentives for participants plus administration costs) were substantially higher than both UGI Electric's own history and the costs for similar programs at other Pennsylvania electric distribution companies, when measured on a cost per MWh saved basis. OSBA Statement No. 1, at 16-17 and Exhibit IEC-3. OSBA also had a concern that UGI Electric would offer incentive payments to customers long after the customer had already decided to install energy efficient equipment. OSBA Statement No. 1, at 11-12.

OSBA proposed that to address these and other related concerns, per-MWh-saved caps for both incentives and for program administration costs, at \$90 and \$100 per MWh respectively be established. OSBA St. No. 1, at 17. OSBA indicated that its concerns had been addressed in the settlement by the establishment of caps at \$100 per MWh saved for incentives and \$110 per MWh for administration costs. Settlement at ¶ 26. To address the incentive payments, OSBA also supported the settlement as it requires UGI Electric to comply with standard Commission practice to provide incentives within 180 days of the installation date. Settlement at ¶ 27.

Assignment of Program Costs

OSBA identified an issue with costs incurred primarily for large industrial customers in EE&C Class 3 (and a small amount for residential customers in Class 1) that were assigned to commercial customers in Class 2. OSBA believed that the accounting treatment of mis-categorized costs did not result in a proper credit to Class 2 commercial rates, because the credit was shifted to a default service rate account that included both residential and commercial customers. OSBA Statement No. 1-S, at 9-12. This issue was resolved via the settlement by reversing out the credit to the default service account and shifting the credit back to the Class 2 variance account. Settlement at ¶ 32. OSBA further indicated that tariff language would be changed to avoid similar issues in the future³.

Public Interest Analysis

As previously discussed, in order to accept a settlement, the Commission must first determine that the proposed terms and conditions are in the public interest. Pa. Pub. Util. Comm'n v. York Water Co., Docket No. R-00049165 (Order entered October 4, 2004); Pa. Pub. Util. Comm'n v. C S Water and Sewer Assoc., 74 Pa. PUC 767 (1991). The parties are to be

³ Included in this portion of its statement in support, OSBA indicated that it had identified two very large accounting errors in UGI Electric's two previous EE&C program proceedings. As a result of OSBA's continuing concerns, it recommended that the Commission direct its Bureau of Audits to conduct a full audit of the accounting for Phase I and Phase II EE&C programs. While these concerns are acknowledged, they are unrelated to the Plan and settlement which the parties have submitted for adoption by the Commission and therefore will not be considered in this recommended decision.

commended on their willingness to communicate and compromise on the issues presented in this matter. It is clear from the statements of support made by each party regarding the terms of the negotiated settlement that a great deal of time and energy was expended in crafting a resolution in this matter. The parties have made credible and convincing arguments that the settlement is in the interest of UGI Electric, its customers and the public interest as a whole.

As outlined in the respective statements in support of the joint petition, all issues raised in testimony have been resolved through party discussions and represents a compromise on the part of all parties. It is evident that the parties have carefully discussed and negotiated all issues raised in this proceeding and specifically those addressed and resolved through the proposed settlement.

Resolution of this case by settlement rather than litigation will avoid the substantial time and effort involved in continuing to formally pursue all issues in this proceeding at the risk of accumulating excessive expense. This settlement has negated the need for evidentiary hearings, which would have compelled the extensive devotion of time and expense for the preparation, presentation, and cross-examination of multiple witnesses. It has also avoided the need for the preparation of briefs, exceptions and potential appeals - all of which yield substantial savings for the parties and ultimately all customers.

The energy efficiency and conservation program established under 66 Pa.C.S.A. § 2806.1 serves the public interest by requiring electric distribution companies to adopt and implement cost-effective energy efficiency and conservation plans to reduce energy demand and consumption. While not required to do so, UGI Electric has chosen to participate in this program. The Phase III plan submitted by UGI Electric, and the settlement which modifies it, provide for reduced energy demand and consumption consistent with those requirements. In addition, the parties have demonstrated that the settlement maintains the proper balance of the interests of all parties, the interests of UGI Electric's various customer types and the public interest as a whole.

The settlement ensures that low-income customers continue to receive benefits from the Phase III Plan at no cost to them as well as other tangible benefits. The settlement also provides customers with a greater ability to conserve energy and reduce energy costs. It provides funding for community-based organizations to market the EE&C Plan. CEO believes that this will increase the opportunity for low-income customers to benefit from the measures offered under the plan. Increased participation in energy efficiency and conservation or customer benefits from those efforts are in the public interest. OSBA provided numerous reasons for its support of the settlement. The settlement terms provide for methods to compile and evaluate CCIP actual cost savings, changes to the methodology with respect to energy costs, capacity cost inflation, and transmission and distribution costs to better calculate avoided costs all serve the public interest. Improvements to other UGI Electric accounting methodologies affecting commercial customers will also be made under the settlement.

The settlement reached by the parties provides effective energy efficiency and conservation strategies to reduce energy demand and consumption and is in the interest of UGI Electric, its customers and the public.

CONCLUSION

For the reasons set forth above, I find that the proposed settlement is in the public interest and consistent with the requirements of 66 Pa.C.S.A. § 2806.1. Accordingly, I recommend that the Commission approve the terms and conditions of the proposed settlement without modification and enter an order approving UGI Electric's Phase III EE&C Plan as modified by the terms and conditions of the settlement.

ORDER

THEREFORE,

IT IS RECOMMENDED:

1. That the August 21, 2018 petition of UGI Utilities, Inc. – Electric Division for the approval of its voluntary Phase III EE&C Plan for the period of June 1, 2019 through May 31, 2024 be approved, as modified by the terms and conditions of the joint petition for settlement filed by the parties.

2. That the joint petition for settlement filed at Docket No. M-2018-3004144 and dated January 31, 2019 be approved in its entirety and without modification.

3. That the stipulation for admission of evidence filed on January 31, 2019 by UGI Utilities, Inc. – Electric Division, the Office of Consumer Advocate, the Office of Small Business Advocate and the Commission on Economic Opportunity in the above-captioned case be approved and adopted.

4. That the following documents are admitted into the record as set forth in the stipulation for admission of evidence filed on January 31, 2019:

- A. UGI Electric
- UGI Electric Exhibits 1 and 2.
 - UGI Electric Statement No. 1 – Direct Testimony of Theodore M. Love, including UGI Electric Exhibit TML-1.
 - UGI Electric Statement No. 2 – Direct Testimony of Tracy A. Hazenstab, including UGI Electric Exhibit TAH-1.
 - UGI Electric Statement No. 1-R – Rebuttal Testimony of Theodore M. Love, including UGI Electric Exhibit TML-1R through TML-6R.

- B. OCA
 - OCA Statement No. 1 – Direct Testimony of Stacy L. Sherwood, including Attachment A, and a signed verification.
 - OCA Statement No. 1-SR – Surrebuttal Testimony of Stacy L. Sherwood and a signed verification.

- C. OSBA
 - OSBA Statement No. 1 – Direct Testimony of Robert D. Knecht, including Exhibits IEc-1 through IEc-3, and a signed verification.
 - OSBA Statement No. 1-S – Surrebuttal Testimony of Robert D. Knecht, including Exhibit IEc-S1, and a signed verification.

- D. CEO
 - CEO Statement No. 1 – Direct Testimony of Eugene M. Brady.

5. That two copies of each filing statement and exhibit listed in the stipulation for admission of evidence be filed with the Secretary of the Pennsylvania Public Utility Commission, unless previously filed.

6. That any filings designated as “confidential” be placed in the non-public folders by the Secretary of the Pennsylvania Public Utility Commission.

7. That Docket No. M-2018-3004144 be marked closed.

Date: February 19, 2019

/s/
Benjamin J. Myers
Administrative Law Judge