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File #: 176896

August 16, 2019

***VIA ELECTRONIC FILING***

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

**Re: Pennsylvania Public Utility Commission v. UGI Utilities, Inc. – Gas Division**  
**Docket Nos. R-2019-3009647**

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Dear Secretary Chiavetta:

Enclosed for filing with the Pennsylvania Public Utility Commission is the Joint Petition for Settlement of Section 1307(f) Rate Investigation in the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Sincerely,

Jessica R. Rogers

JRR/kl  
Enclosure

cc: Honorable Benjamin J. Myers  
Certificate of Service

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission,	:	
Office of Consumer Advocate, And	:	
Office of Small Business Advocate	:	Docket Nos. R-2019-3009647
	:	C-2019-3009778
v.	:	C-2019-3010038
	:	
UGI Utilities, Inc. – Gas Division	:	

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**JOINT PETITION FOR SETTLEMENT OF  
SECTION 1307(f) RATE INVESTIGATION**

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**TO ADMINISTRATIVE LAW JUDGE BENJAMIN J. MYERS:**

UGI Utilities, Inc. – Gas Division (“UGI Gas” or the “Company”) and the Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”) hereby join in this Joint Petition For Settlement Of Section 1307(f) Rate Investigation (“Settlement”) in the above-captioned proceeding (the “Parties”). The Office of Consumer Advocate (“OCA”), the Office of Small Business Advocate (“OSBA”), and the UGI Industrial Intervenors (“UGIII”) also participated in this proceeding. OCA, OSBA, and UGIII have authorized the Parties to represent that they do not oppose the Settlement and will file Statements of Non-Opposition.

The Parties request that Administrative Law Judge Benjamin J. Myers (the “ALJ”) and the Commission: (1) approve the terms of this Settlement; (2) authorize UGI Gas to file a tariff supplement for service rendered on or after December 1, 2019, that implements, subject to updates and tariff modifications traditionally performed on December 1, the consolidated Purchased Gas Cost (“PGC”) rate of \$5.2064/Mcf applicable to the entire service territory; and

(3) make all associated findings required by Sections 1307(f) and 1318 of the Public Utility Code, 66 Pa. C.S. §§ 1307(f), 1318.

Statements in Support of the Settlement are attached as **Appendices A and B**. Letters of Non-Opposition to the Settlement are attached as **Appendices C through E**.

## **I. BACKGROUND**

1. UGI Gas is a natural gas distribution company with gross intrastate annual operating revenues in excess of \$40 million. Pursuant to the provisions of Section 1307(f) of the Public Utility Code, 66 Pa. C.S. § 1307(f), and the Pennsylvania Public Utility Commission's ("Commission") gas cost recovery regulations at 52 Pa. Code §§ 53.61-53.69, the Company initiated this annual proceeding to propose PGC rate to become effective on December 1, 2019.

2. On May 1, 2019, the Company made its 30-day pre-filing ("Book 1") with the Commission (containing data related to the recovery of purchased gas costs) pursuant to Section 1307(f) of the Public Utility Code, 66 Pa. C.S. § 1307(f), and in accordance with the Commission's regulations at 52 Pa. Code §§ 53.64 and 53.65.

3. On May 9, 2019, the OCA filed a Notice of Appearance, Formal Complaint, and Public Statement in the Company's PGC proceeding.

4. On May 13, 2019, I&E filed a Notice of Appearance.

5. On May 20, 2019, the OSBA filed a Notice of Appearance, Formal Complaint, Public Statement, and Verification in this proceeding.

6. On May 31, 2019, the Company filed with the Commission its definitive PGC filing ("Book 2"), including supporting information required by the Commission's regulations, the Company's direct testimony and exhibits, and the *Pro Forma* Tariff Supplements reflecting actual and projected changes in natural gas costs for the North, Central and South Rate Districts.

In its PGC filing, UGI Gas also proposed to implement a unified PGC rate of \$5.2064/Mcf for its entire service territory.<sup>1</sup>

7. On June 19, 2019, UGIII filed a Petition to Intervene.

8. On June 21, 2019, a Prehearing Conference was held before the ALJ. UGIII's Petition to Intervene was granted at the Prehearing Conference.

9. On June 24, 2019, the ALJ issued a Scheduling Order that adopted the procedural schedule proposed by the Parties (at the Prehearing Conference).

10. On June 28, 2019, a Motion for Protective Order was filed by the Company, which was granted by ALJ Order, which issued on July 1, 2019.

11. In accordance with the procedural schedule, OCA and I&E submitted direct testimony on July 2, 2019.

12. On July 19, 2019, the Company submitted rebuttal testimony.

13. On July 29, 2019, OCA and I&E submitted surrebuttal testimony.

14. The Parties held settlement discussions in this proceeding. As a result of these discussions 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 29, 2019, counsel for the Company advised the ALJ of the settlement in principle and requested that the procedural schedule be suspended and that the evidence be admitted by stipulation.

15. As a result, the July 31, 2019 evidentiary hearing was cancelled. The testimony and exhibits are being admitted into the record by Joint Stipulation, with accompanying signed verifications of the sponsoring witnesses, filed concurrently with this Settlement.

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<sup>1</sup> As described in Paragraph 16 herein, the Company proposed a unified PGC rate consistent with the settlement of the Merger proceeding (at Docket Nos. A-2018-3000381, A-2018-3000382 and A-2018-3000383) and the 2019 Base Rate Proceeding (at Docket No. R-2018-3006814). However, the Company also proposed separate rates for each of its three rate districts.

## **II. TERMS OF SETTLEMENT**

### **A. UNIFIED PGC RATE**

16. Consistent with Paragraph B.7(b) of the Joint Petition for Settlement of the Company's recent Merger proceeding (at Docket Nos. A-2018-3000381, A-2018-3000382 and A-2018-3000383),<sup>2</sup> and as proposed by the Company, and agreed upon by the parties to the Joint Petition for Settlement submitted in the pending 2019 Base Rate Proceeding (at Docket No. R-2018-3006814), UGI Gas has proposed in this proceeding to adopt a unified approach to calculating the PGC, and a unified PGC rate. The unified PGC rate will be applied to the entire UGI Gas service territory effective December 1, 2019. The adoption of the unified PGC rate in this proceeding is contingent upon Commission approval of the Joint Petition For Settlement Of All Issues filed on July 22, 2019 in the 2019 Base Rate Proceeding. If the Commission does not approve the unification of the PGC rate in the 2019 Base Rate Proceeding, then the Parties agree that the PGC rates that will go into effect on December 1, 2019 will be calculated on a rate district basis, as described in the direct testimony of UGI Gas witness Tracy A. Hazenstab.

### **B. PEAKING CONTRACTS**

17. The Company will continue to use the modified Requests for Proposals ("RFPs") as agreed to in the 2018 PGC Settlement at Docket No. R-2018-3001633 on a prospective basis. The Company's bid form will request, at a minimum, that suppliers provide bids based on (a)

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<sup>2</sup> See Joint Application of UGI Utilities, Inc., UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc. for All of the Necessary Authority, Approvals, and Certificates of Public Convenience for (1) an Agreement and Plan of Merger; (2) the Merger of UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc. into UGI Utilities, Inc.; (3) the initiation by UGI Utilities, Inc. of natural gas service in all territory in this Commonwealth where UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc. do or may provide natural gas service; (4) the abandonment by UGI Penn Natural Gas, Inc. of all natural gas service in this Commonwealth; (5) the abandonment by UGI Central Penn Gas, Inc. of all natural gas service in this Commonwealth; (6) the adoption by UGI Utilities, Inc. of UGI Penn Natural Gas, Inc.'s and UGI Central Penn Gas, Inc.'s Existing Tariffs and their Application within New Service and Rate Districts of UGI Utilities, Inc. Corresponding to their Existing Service Territories as UGI North and UGI Central, respectively; (7) the adoption by UGI Utilities, Inc. of its Existing Tariff to be applied to a New UGI South Service and Rate District; (8) Where Necessary, Associated Affiliated Interest Agreements; and (9) any Other Approvals Necessary to Complete the Contemplated Transaction, Docket Nos. A-2018-3000381, A-2018-3000382 and A-2018-3000383 (Opinion and Order entered September 20, 2018).

## **II. TERMS OF SETTLEMENT**

### **A. UNIFIED PGC RATE**

16. Consistent with Paragraph B.7(b) of the Joint Petition for Settlement of the Company's recent Merger proceeding (at Docket Nos. A-2018-3000381, A-2018-3000382 and A-2018-3000383),<sup>2</sup> and as proposed by the Company, and agreed upon by the parties to the Joint Petition for Settlement submitted in the pending 2019 Base Rate Proceeding (at Docket No. R-2018-3006814), UGI Gas has proposed in this proceeding to adopt a unified approach to calculating the PGC, and a unified PGC rate. The unified PGC rate will be applied to the entire UGI Gas service territory effective December 1, 2019. The adoption of the unified PGC rate in this proceeding is contingent upon Commission approval of the Joint Petition For Settlement Of All Issues filed on July 22, 2019 in the 2019 Base Rate Proceeding. If the Commission does not approve the unification of the PGC rate in the 2019 Base Rate Proceeding, then the Parties agree that the PGC rates that will go into effect on December 1, 2019 will be calculated on a rate district basis, as described in the direct testimony of UGI Gas witness Tracy A. Hazenstab.

### **B. PEAKING CONTRACTS**

17. The Company will continue to use the modified Requests for Proposals ("RFPs") as agreed to in the 2018 PGC Settlement at Docket No. R-2019-3001633 on a prospective basis. The Company's bid form will request, at a minimum, that suppliers provide bids based on (a)

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*2 See Joint Application of UGI Utilities, Inc., UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc. for All of the Necessary Authority, Approvals, and Certificates of Public Convenience for (1) an Agreement and Plan of Merger; (2) the Merger of UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc. into UGI Utilities, Inc.; (3) the initiation by UGI Utilities, Inc. of natural gas service in all territory in this Commonwealth where UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc. do or may provide natural gas service; (4) the abandonment by UGI Penn Natural Gas, Inc. of all natural gas service in this Commonwealth; (5) the abandonment by UGI Central Penn Gas, Inc. of all natural gas service in this Commonwealth; (6) the adoption by UGI Utilities, Inc. of UGI Penn Natural Gas, Inc.'s and UGI Central Penn Gas, Inc.'s Existing Tariffs and their Application within New Service and Rate Districts of UGI Utilities, Inc. Corresponding to their Existing Service Territories as UGI North and UGI Central, respectively; (7) the adoption by UGI Utilities, Inc. of its Existing Tariff to be applied to a New UGI South Service and Rate District; (8) Where Necessary, Associated Affiliated Interest Agreements; and (9) any Other Approvals Necessary to Complete the Contemplated Transaction, Docket Nos. A-2018-3000381, A-2018-3000382 and A-2018-3000383 (Opinion and Order entered September 20, 2018).*

payment terms that exclude a November payment and (b) payment terms that include a November payment. The Company will evaluate RFP responses in a manner, which is inclusive of projected PGC interest impacts with regard to fixed charges. The Company will make the RFP responses available in future PGC proceedings to the statutory Parties.

**C. QUARTERLY CHANGES**

18. UGI Gas will conduct a three year side by side analysis of the use of the Company's preferred method ("QAM 1") and the remaining life method ("QAM 2"), as those two methods are defined in the direct testimony of UGI Gas witness William J. McAllister. The comparison will address the impacts of each method on the quarterly rate and on the E-factor. The Company will provide the results of that study and a recommendation in the UGI Gas PGC proceeding filed on June 1, 2023. While the study is being conducted, the Company will calculate its quarterly PGC rate changes in the same manner as approved in the settlement of its 2017 PGC proceeding (*i.e.*, using QAM 1).

**D. INTEREST ON OVER/UNDERCOLLECTIONS**

19. On a going forward basis, beginning with the filing of its proposed tariff on or before June 1, 2020 in its next annual PGC filing, UGI Gas will use the prime rate in effect 60 days prior (April 2) to the annual PGC filing date (June 1). The 60-day prime rate will be applied to the over/undercollection balances for the PGC period December 1 of the prior year through November 30 of the PGC year.

**E. PGC CORRECTION**

20. In 2018, the Company discovered a mathematical error in a PGC workpaper that over time resulted in an over collection for North Rate District customers and a slight under collection for Central Rate District customers. The total principle net overcollection resulting from these errors is \$4,988,455. These errors were not previously identified in the accounting

processes, in PGC proceedings, or in PUC Audit Staff reviews of PGC recoveries. In order to address the errors, UGI Gas agrees to refund \$5,852,167 through a consolidated PGC E-factor rate adjustment beginning with the effective date of the new PGC rates (December 1, 2019) to correct the net overcollection.

### **III. STANDARDS AND FINDINGS**

21. This proceeding involves Commission review pursuant to Sections 1307 and 1318 of the Public Utility Code. Under Section 1307(f), the Commission, after hearing, must determine what portion of the gas costs UGI Gas may recover for a previous 12-month period under the standards set forth in Section 1318. In addition, the Commission must determine whether the requirements of Section 1318 can be met. This determination must precede Commission approval of the Company's proposed rates. The historic period reviewed in this proceeding is the 12-month reconciliation period ending March 31, 2019. The proposed rates are intended to become effective December 1, 2019.

#### **A. HISTORIC RECONCILIATION PERIOD STANDARDS**

22. With respect to UGI Gas's gas purchases and gas purchasing practices during the 12-month historic reconciliation period ending March 31, 2019, all Parties agree that UGI Gas has met the standards set forth in Section 1318 of the Public Utility Code, as required by Section 1307(f)(5) of the Public Utility Code. As a result, all Parties request that the Commission find, pursuant to Section 1307(f)(5) of the Public Utility Code, and based upon the evidence presented by the Parties in this case, that during the 12-month period ended March 31, 2019, UGI Gas has pursued a least-cost fuel procurement policy, consistent with its obligation to provide safe, adequate and reliable service to its customers, as required by Section 1318 of the Public Utility

Code. Information submitted by UGI Gas in support of the required statutory findings can be found in the following sections of UGI Gas Exhibit 1 and UGI Gas Exhibit 2:<sup>3</sup>

- a) FERC Participation (66 Pa. C.S. §§ 1317(a)(1), 1318(a)(1); 52 Pa. Code § 53.64(c)(4)): Prefiling, Section 3
- b) Supplier Negotiations/Renegotiations (66 Pa. C.S. §§ 1317(a)(2), 1318(a)(2); 52 Pa. Code §§ 53.64(c)(3), (c)(6)): Prefiling, Sections 2 and 5.
- c) Efforts to Obtain Lower Cost Supplies (66 Pa. C.S. §§ 1317(a)(3), 1318(a)(3); 52 Pa. Code §§ 53.64(c)(1), (c)(3), (c)(6)): Prefiling, Sections 1, 2, and 5.
- d) Withheld Supplies (66 Pa. C.S. §§ 1317(a)(4), 1318(a)(4); 52 Pa. Code § 53.64(c)(6)): Prefiling, Section 5.
- e) Affiliated Purchases (66 Pa. C.S. §§ 1317(b), 1318(b); 52 Pa. Code § 53.65): Prefiling, Section 13.
- f) Least Cost Fuel Procurement Policy (66 Pa. C.S. §§ 1317(a), 1318(a); 52 Pa. Code §§ 53.64(c)(1), (c)(3), (c)(6)): Prefiling, Section 1, 2 and 5.
- g) Calculation of 2019 PGC Rates:
  - i) May 31, 2019, Filing, Schedule A – Computation of Purchased Gas Cost Rate effective December 1, 2019;
  - ii) May 31, 2019, Filing, Schedule B (page 1) – Development of Projected Cost of Gas (C-factor);

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<sup>3</sup> UGI Gas Exhibit 1 and 2 are fully described in the Joint Stipulation for Admission of Evidence, which is being filed concurrently with the Settlement.

- iii) May 31, 2019, Filing, Schedule B (pages 2-13) – Projected Supply Volumes, Rates, Costs April 2019 through November 2020;
- iv) May 31, 2019, Filing, Schedule C – Development of Experienced Cost of Gas (E-factor);
- v) May 31, 2019, Filing, UGI Statement No. 1, Written Direct Testimony of Tracy A. Hazenstab, Senior Analyst – Rates.
- h) Reliability (66 Pa. C.S. §1317(c)): Prefiling, Section 14.

**B. PROJECTED PERIOD FINDINGS**

23. With respect to the 12-month period beginning December 1, 2019, the period of time during which the proposed rates would be in effect, all Parties agree and request the Commission find that UGI Gas has satisfied each of the standards for a least cost procurement policy set forth in Section 1318 of the Public Utility Code, including the standards set forth in Sections 1318(a)(1), 1318(a)(2), 1318(a)(3), 1318(a)(4), 1318(b)(1), 1318(b)(2), and 1318(b)(3), based upon the evidence of record in this proceeding. Nevertheless, it is expressly understood and agreed that such findings, relating to the rates to become effective December 1, 2019, are made solely for the purpose of setting prospective rates and shall be subject to further review in an appropriate future proceeding. This Section of the Settlement, Section III.B, is not intended to limit or prevent any party from challenging projected gas purchases that actually have been made, including those made during the interim period of April 1, 2019 through November 30, 2019 and future gas purchasing practices that have been implemented, or from reviewing whether these gas purchases and gas purchasing practices have, in fact, complied with the standards of Section 1318, except as provided in Section II above.

24. If in an appropriate future proceeding, gas purchases and gas purchasing practices relating to the period December 1, 2019, through November 30, 2020 are challenged, the

Commission's findings made pursuant to Section III.B of this Settlement shall pose no bar to the examination of such purchases and practices including, but not limited to, disallowance of or reductions to, such costs during the one-year period commencing December 1, 2019, except as provided in Section II above.

25. The Parties also agree that future examination of the gas costs relating to the period April 1, 2019 through November 30, 2019, to determine whether UGI Gas's experienced and projected gas purchases and gas purchasing practices complied with the standards set forth in Section 1318 of the Public Utility Code, 66 Pa. C.S. § 1318, shall be permitted and that the Commission's adoption of the findings under Section III.B of this Settlement shall not be construed to limit or prevent any disallowance or reduction of such costs, except as provided in Section II above.

#### **IV. GENERAL PROVISIONS**

26. 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, 2019, 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.

27. If the Commission modifies or does not approve the Settlement and the proceeding continues to hearing 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.

28. If the ALJ approves this Settlement without modification, the Parties waive their rights to file exceptions.

29. 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.

30. 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.

31. 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.

32. 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, 2019.

33. This Settlement may be executed in counterparts.

## V. CONCLUSION

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

1. That Administrative Law Judge Benjamin J. Myers and the Commission approve this Settlement, including all terms and conditions thereof;

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

3. That the Commission enter a Final Order, consistent with this Settlement: (a) approving the proposed rates effective December 1, 2019, as modified to reflect updates and tariff modifications traditionally performed as part of UGI Gas's December 1 PGC compliance filing; and (b) directing UGI Gas to file a final tariff implementing such rates for gas service rendered by UGI Gas on and after December 1, 2019; and

4. That the Commission mark closed its inquiry and investigation at Docket Nos. R-2019-3009647, C-2019-3009778, and C-2019-3010038.

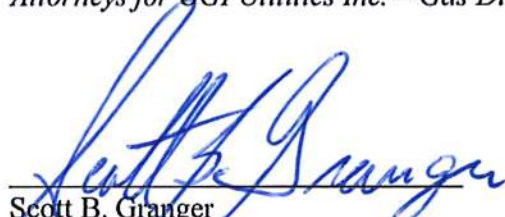
Respectfully submitted,

  
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Date: 8/16/19

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*Attorneys for UGI Utilities Inc. – Gas Division*

  
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Date: 8/16/19

*Attorney for Bureau of Investigation & Enforcement*

# **APPENDIX A**

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission,	:	
Office of Consumer Advocate, and	:	
Office of Small Business Advocate	:	Docket Nos. R-2019-3009647
	:	C-2019-3009778
v.	:	C-2019-3010038
	:	
UGI Utilities, Inc. – Gas Division	:	

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**UGI UTILITIES, INC. – GAS DIVISION’S  
STATEMENT IN SUPPORT OF  
JOINT PETITION FOR SETTLEMENT OF  
SECTION 1307(f) RATE INVESTIGATION**

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**TO ADMINISTRATIVE LAW JUDGE BENJAMIN J. MYERS:**

UGI Utilities, Inc. – Gas Division (“UGI Gas” or the “Company”) hereby submits this Statement in Support of the Joint Petition For Settlement Of Section 1307(f) Rate Investigation (“Settlement”) entered into by UGI Gas and the Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”)(collectively “Joint Petitioners”).<sup>1</sup> UGI Gas believes that this Settlement is in the best interests of the Company, its customers, and the parties to the above-captioned proceeding and, therefore, is in the public interest and should be approved.

The Settlement of this proceeding was achieved only after a comprehensive investigation of the Company’s gas procurement practices. UGI Gas responded to numerous formal discovery requests. Parties also filed multiple rounds of testimony, including the direct and supplemental

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<sup>1</sup> The Office of Consumer Advocate (“OCA”), the Office of Small Business Advocate (“OSBA”), and the UGI Industrial Intervenors (“UGIII”) were also parties to this proceeding, and have advised the Joint Petitioners that they do not oppose this Settlement. Their Statements of Non-Opposition are included with the Settlement as Appendices C through E.

direct testimony of UGI Gas, the direct testimony of OCA and I&E, the rebuttal testimony of UGI Gas and OCA, and the surrebuttal testimony of OCA and I&E. In addition, the Joint Petitioners participated in constructive settlement negotiations, which ultimately led to the Settlement.

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

## **I. SETTLEMENT TERMS**

### **A. UNIFIED PGC RATE**

Prior to the 2019 Purchased Gas Cost (“PGC”) proceeding, each year, the Company filed three separate PGC rates for its three affiliated Natural Gas Distribution Companies (“NGDCs”), which consisted of UGI Central Penn Gas (“UGI-CPG”), UGI Penn Natural Gas, Inc. (“UGI-PNG”) and UGI Utilities, Inc. – Gas Division (“UGI-GD”). Pursuant to the Commission’s September 20, 2018 Opinion and Order, in the Company’s recent Merger Proceeding (at Docket Nos. A-2018-3000381, A-2018-3000382 and A-2018-3000383),<sup>2</sup> the Company merged the three affiliated NGDCs. The resulting entity is UGI Gas, which operates as a single “public utility” and NGDC (as such terms are defined under the Public Utility Code, 66 Pa. C.S. §§ 102 and

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<sup>2</sup> See *Joint Application of UGI Utilities, Inc., UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc. for All of the Necessary Authority, Approvals, and Certificates of Public Convenience for (1) an Agreement and Plan of Merger; (2) the Merger of UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc. into UGI Utilities, Inc.; (3) the initiation by UGI Utilities, Inc. of natural gas service in all territory in this Commonwealth where UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc. do or may provide natural gas service; (4) the abandonment by UGI Penn Natural Gas, Inc. of all natural gas service in this Commonwealth; (5) the abandonment by UGI Central Penn Gas, Inc. of all natural gas service in this Commonwealth; (6) the adoption by UGI Utilities, Inc. of UGI Penn Natural Gas, Inc.’s and UGI Central Penn Gas, Inc.’s Existing Tariffs and their Application within New Service and Rate Districts of UGI Utilities, Inc. Corresponding to their Existing Service Territories as UGI North and UGI Central, respectively; (7) the adoption by UGI Utilities, Inc. of its Existing Tariff to be applied to a New UGI South Service and Rate District; (8) Where Necessary, Associated Affiliated Interest Agreements; and (9) any Other Approvals Necessary to Complete the Contemplated Transaction*, Docket Nos. A-2018-3000381, A-2018-3000382 and A-2018-3000383 (Opinion and Order entered September 20, 2018).

2202). UGI Gas currently renders natural gas service to customers located in three rate districts – North, South and Central (which correspond to the pre-existing affiliated NGDCs).

Subsequent to the Merger, UGI Gas filed a base rate case on January 28, 2019 (“2019 Base Rate Case”) in which it proposed to establish uniform rates for the three rate districts, including a uniform PGC rate.

On May 31, 2019, UGI Gas filed its definitive PGC filing (UGI Gas Exhibit 2), including supporting information required by the Commission’s regulations, the Company’s direct testimony and exhibits, and the Pro Forma Tariff Supplements reflecting actual and projected changes in natural gas costs for the North, Central and South Rate Districts. In its definitive PGC filing (UGI Gas Exhibit 2), and consistent with the Company’s proposal in the ongoing 2019 Base Rate Case, the Company also proposed to implement a unified PGC rate for its entire service territory.

More specifically, UGI Gas witness Tracy A. Hazenstab provided testimony and exhibits (in this proceeding) that would support either a unified PGC rate for the entire service territory, or separate PGC rates calculated individually by rate district. The following chart provides a summary of the rates proposed by UGI Gas in this proceeding by rate district.

<b>Rate District</b>	<b>June 1, 2019 PGC</b>	<b>Dec 1, 2019 PGC</b>	<b>% Change</b>	<b>Unified Rate Dec 1, 2019</b>	<b>% Change over June 1 Rate</b>
South	\$5.6051	\$6.0098	7.2%	\$5.2064	-7.1%
North	\$4.5559	\$4.3204	-5.2%	\$5.2064	14.3%
Central	\$4.2508	\$4.5839	7.8%	\$5.2064	22.5%

(UGI Gas St. 1, pp. 6-8). These proposed rates are subject to adjustment in UGI Gas’s December 1 PGC compliance filing, which traditionally reflects updates and tariff modifications.

On July 22, 2019, a Joint Petition for Approval of Settlement of All Issues (“2019 Base Rate Case Settlement”) was filed in the 2019 Base Rate Case. In the 2019 Base Rate Case Settlement, the parties agreed that UGI Gas could move all rate classes to a uniform PGC rate on December 1, 2019, and to unify nearly all distribution rates on the effective date of new rates, thereby effectively eliminating the need for maintaining the Company’s three rate district structure.

No party to this PGC proceeding opposed the Company’s proposal to implement a unified PGC rate that would be effective December 1, 2019. Further, I&E, OCA, and OSBA were all parties to the 2019 Base Rate Settlement that resolved this issue in favor of unification of the PGC rate.

Consistent with Paragraph B.7(b) of the Joint Petition for Settlement of the Company’s recent Merger proceeding,<sup>3</sup> Paragraph 24 in the Company’s 2019 Base Rate Case Settlement and as proposed by UGI Gas in its definitive PGC filing, and as agreed upon by the parties in the Settlement, UGI Gas will adopt a unified approach to calculating the PGC, and a unified PGC rate of \$5.2064/Mcf applicable to the entire UGI Gas service territory effective December 1, 2019. (Settlement ¶ 16). The adoption of the unified PGC rate in this proceeding is contingent upon Commission approval of the 2019 Base Rate Settlement. (Settlement ¶ 16). If the Commission does not approve the unification of the PGC rate in the 2019 Base Rate Case, then the Parties agree that the PGC rates that will go into effect on December 1, 2019 will be calculated on a rate district basis, as described in the direct testimony of UGI Gas witness Tracy

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<sup>3</sup> Paragraph B.7(b) provides as follows:

UGI shall be permitted to include a proposal to create uniform rates for the three UGI Gas rate districts, inclusive of base rates, PGC rates, and other surcharges, which shall not be opposed on the basis that such proposal should be made in a PGC rate or other type of proceeding.

A. Hazenstab. (Settlement ¶ 16). The proposed unified PGC rate will be effective December 1, 2019, as modified to reflect updates and tariff modifications traditionally performed as part of UGI Gas's December 1 PGC compliance filing. (Settlement Conclusion ¶ 3).

This provision of the Settlement is in the public interest because it produces significant gains in administrative efficiency, and will make the Company's rates more clear and straightforward for its customers. Further, the Settlement provision aligns the outcome of this PGC proceeding with the Merger settlement and the 2019 Base Rate Settlement.

#### **B. PEAKING CONTRACTS**

The Company holds a portfolio of supply assets in order to meet the design-cold firm requirements of its core market customers. Included in the Company's portfolio are a number of peaking service contracts. These services allow the Company to call on firm supplies for a specific number of days during the winter heating period. The annual reservation charge for the majority of these services is paid in equal installments over the service period (*i.e.*, the winter period in which UGI Gas may call upon these supplies, or November through March). (UGI Gas St. No. 2-R pp. 1-2).

In UGI Gas's 2018 PGC proceedings, as part of a comprehensive settlement, the Company agreed to modify its 2019 peaking service requests for proposals ("RFPs") to request payment terms of: 1) November through March; and 2) December through March. The Company complied with this condition of the 2018 PGC settlement. (UGI Gas St. No. 2-R p. 2).

I&E witness Christopher Keller testified in this proceeding that the Company should continue to seek revised payment schedules for its peaking service contracts to remove November payments. (I&E St. No. 1, p. 7). According to Mr. Keller, the Company's usage data for November shows that the usage levels are too low to justify peaking services that extend to the month of November. (I&E St. No. 1, pp. 7-8). Mr. Keller alleged that a payment for peak

winter usage coverage in November is unreasonable because it results in an undercollection which must eventually be recovered in the E-factor with attendant interest amount due from ratepayers. (I&E St. No. 1, p. 7). Therefore, Mr. Keller recommended removing the November payment on a going forward basis for new peaking service contracts. (I&E St. No. 1, p. 8).

UGI Gas disagreed with Mr. Keller's analysis for several reasons. As described in the Company's rebuttal testimony, Mr. Keller's analysis fails to fully account for the cost impacts of changing the payment terms. First, moving the November payment to December would increase the interest charged to the PGC due to December's higher interest weighting as compared to the interest weighting for November. (UGI Gas St. No. 1-R, pp. 3-5). Second, the aggregate costs of demand charges for a four month payment term (December through March) could be incrementally higher than a five month payment term (November through March), which could offset any cost savings that Mr. Keller suggests could be provided to the PGC by changing the payment terms of these contracts on a prospective basis. (UGI Gas St. No. 1-R, pp. 3-5). This is because suppliers providing peaking service may elect to charge a premium for payment terms over four months rather than five, which would adversely impact overall costs charged to the PGC. Finally, the impact of the proposal would merely shift costs from the E-factor to the C-factor. (UGI Gas St. No. 1-R, pp. 3-5). However, in light of Mr. Keller's testimony and the Company's recent experience with the 2019 RFP, the Company supports using the same peaking RFP process that was agreed upon in the 2018 PGC settlement for any RFPs the Company may issue over the next year. (UGI Gas St. No. 2-R, p. 4).

The Settlement provides that the Company will continue to use the modified RFPs as agreed to in the 2018 PGC Settlement at Docket No. R-2018-3001633 on a prospective basis. (Settlement ¶ 18). The Company's bid form for peaking services will request, at a minimum, that

suppliers provide bids based on (a) payment terms that exclude a November payment and (b) payment terms that include a November payment. (Settlement ¶ 18). The Company will evaluate RFP responses in a manner, which is inclusive of projected PGC interest impacts with regard to fixed charges. (Settlement ¶ 18). The Company will make the RFP responses available in future PGC proceedings to the statutory Parties. (Settlement ¶ 18).

These settlement provisions will enable the Company to fully evaluate the pricing impact of excluding and including the November payment in peaking service contracts (on a going forward basis), and allow UGI Gas to select the contract that provides the best terms for customers. Thus, these settlement provisions are reasonable and in the public interest and, therefore, should be approved.

### **C. QUARTERLY ADJUSTMENT METHODOLOGY**

In the settlement of the Company's 2018 PGC case, UGI Gas agreed to provide a two-year analysis comparing its quarterly adjustment methodology to I&E's preferred methodology. The Company presented that analysis in the direct testimony of William J. McAllister, which was included in the definitive PGC filing on May 31, 2019 (UGI Gas Exhibit 2).

The analysis compared the Company's preferred quarterly adjustment methodology ("QAM 1") and I&E's preferred methodology ("QAM 2"). QAM 1 is the method that was previously approved in the Company's 2017 PGC Settlement. It permits the Company to utilize quarterly C-Factor adjustments to recover actual experienced over/undercollections on an annual basis (over a sales volume defined by annual sales) and projected over/undercollections related to the remaining months of the PGC period on either an annual basis (over a sales volume defined by annual sales) or on a remaining life basis (over the remaining portion of the PGC year). Under QAM 1, quarterly rate adjustments are capped at 15% for September 1; 25% for December 1; 25% for March 1; and 25% for June 1. (UGI Gas St. 3, p. 4). QAM 2 is the

method I&E proposed in the 2018 PGC case and in this case. It permits the Company to utilize quarterly C-Factor adjustments to recover actual and projected over/undercollections, for incurred and remaining months of the PGC period so that over/undercollections are always recovered only on a remaining life basis (over the remaining portion of the PGC year) for quarterly calculations made December 1, March 1, and June 1. Additionally, for the September 1 quarterly C-Factor adjustment, the calculation is to be made using the six months of sales volumes between June and November. Each quarterly adjustment would be capped at 25% of the then-current PGC rate. (UGI Gas St. 3, p. 4). Based on the Company's analysis, UGI Gas concluded that QAM 1 produced less volatility between quarters, and was therefore the preferred methodology.

In direct testimony, I&E witness Mr. Keller disputed the Company's conclusion and recommended that the Company use QAM 2 to calculate quarterly PGC rate changes, subject to the existing quarterly rate caps. (I&E St. No. 1, pp. 15-16). Mr. Keller argued that the use of QAM 1 would result in increased over/undercollections and the attendant interest that must be recovered in the subsequent PGC year via the E-factor. (I&E St. No. 1, pp. 15-16).

In rebuttal testimony, witnesses for both UGI Gas and OCA disputed Mr. Keller's claims regarding the impacts and relative advantages of the two methodologies. (*See* UGI Gas St. No. 3-R; OCA St. No. 1-R). In the Company's rebuttal testimony, Mr. McAllister reviewed the Commission's prior treatment of quarterly adjustment methods. (UGI Gas St. No. 3-R, pp. 3-4). Mr. McAllister also addressed the issues of volatility and impacts on the E-factor. Specifically, the Company's analysis showed that I&E's preferred approach would have resulted in significantly higher rate volatility over the past two years, even when the quarterly rate caps are applied. (UGI Gas St. No. 3-R, pp. 5-6). Further, an analysis of historic PGC E-Factors for UGI

Gas going back to 2012 showed that the highest E-Factors experienced by the Company were during a period where UGI Gas was using I&E's preferred methodology. (UGI Gas St. No. 3-R, p. 7). OCA witness Jerome Mierzwa also provided rebuttal testimony rejecting Mr. Keller's proposal. Mr. Mierzwa testified that the methodology proposed by Mr. Keller would produce greater rate volatility compared to the Company's current approach, and recommended that I&E's proposal not be adopted. (OCA St. No. 1-R, pp. 3-4).

The Settlement provides that UGI Gas will conduct a three-year side by side analysis of the Company's preferred method (QAM 1) and the remaining life method (QAM 2), as those two methods are defined in the direct testimony of UGI Gas witness William J. McAllister. The comparison will address the impacts of each method on the quarterly PGC rate and on the E-factor. (Settlement ¶ 19). The Company will provide the results of that study and a recommendation in the UGI Gas PGC proceeding filed on June 1, 2023. (Settlement ¶ 19). While the study is being conducted, the Company will calculate its quarterly PGC rate changes in the same manner as approved in the settlement of its 2017 PGC proceeding (*i.e.*, using QAM 1). (Settlement ¶ 19).

The Settlement recognizes that the Company will continue to use its current methodology through the 2023 PGC year, while the Company conducts a detailed analysis of the impacts of the two methods for calculating quarterly changes. This analysis will help the parties evaluate which of the two methodologies provides the greatest benefit to customers on a going forward basis as part of the 2023 PGC proceeding. This will also provide the Company with flexibility in calculating its quarterly rate changes as UGI Gas transitions to unified rates. Accordingly, these settlement terms are reasonable and in the public interest and should be approved.

#### D. INTEREST ON OVER/UNDERCOLLECTIONS

In preparing its 2019 PGC filing, UGI Gas used the interest rate of 4.75% to calculate over/undercollections for the historic period (December 2018 through March 2019), because it was the prime rate for commercial borrowing as reported in the Wall Street Journal, effective April 1, 2018. (UGI Gas St. No. 1-R, p. 6). The Company calculates interest on the over/undercollections for two distinct periods: a historic 12-month period ending two months prior to the filing date of the PGC proceeding (“Historic Period”) and an 8-month interim period of projected over/undercollections from the end of the Historic Period to the beginning of the rate effective period (“Interim Period”). (UGI Gas St. No. 1-R, pp. 6-7). This is consistent with how the Company has calculated interest on its over/undercollections in past PGC years since the passage of Act 47 of 2016.<sup>4</sup> (UGI Gas St. No. 1-R, p. 6).

I&E witness Mr. Keller disagreed with the Company’s use of a 4.75% interest rate to calculate the over/undercollection for December 2018 through March 2019. Mr. Keller proposed that the Company should instead use a 5.50% interest rate for December 2018 through March 2019, *i.e.* the Historic Period, consistent with the interest rate that the Company used for April 2019 through November 2019, *i.e.* the Interim Period. (I&E St. No. 1, p. 17) Mr. Keller stated that the use of 5.50% is appropriate because it was the prime rate in effect 60 days before the Company’s definitive PGC tariff filing, made on May 31, 2019. (I&E St. No. 1, p. 18).

UGI Gas witness Ms. Hazenstab explained in her rebuttal testimony that the 5.50% prime interest rate proposed by Mr. Keller was not published in the Wall Street Journal until December 20, 2018, thus, it was not the interest rate which was “in effect 60 days prior to” the Company’s June 1st filing in 2018. (UGI Gas St. No. 1-R, p. 7). The 4.75% interest rate became effective

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<sup>4</sup> 66 Pa. C.S. § 1307(f)(5) (as amended in 2016).

on April 1, 2018. Therefore, the 4.75% interest rate should apply to the over/undercollection amounts that occurred in the Historic Period (April 2018 – March 2019) because that was the effective prime interest rate for that period. (UGI Gas St. No. 1-R, p. 7). The 5.50% interest rate was effective as of April 1, 2019. Therefore, the 5.50% interest rate should only apply to the over/undercollection amounts that occurred in the Interim Period (April 2019 – November 2019) because that was the effective prime interest rate for that period. (UGI Gas St. No. 1-R, p. 7). Further, adopting Mr. Keller’s proposal in this proceeding would increase the interest paid by customers by \$83,173. (UGI Gas St. No. 1-R, p. 8).

The Settlement provides that, on a going forward basis, beginning with the filing of its proposed tariff on or before June 1, 2020 in its next annual PGC filing, UGI Gas will use the prime rate in effect 60 days prior (April 2) to the annual PGC filing date (June 1). (Settlement ¶ 20). The 60-day prime rate will be applied to the over/undercollection balances for the PGC period December 1 of the prior year through November 30 of the PGC year. (Settlement ¶ 20). This provision addresses concerns regarding interest on over/undercollections on a going forward basis.

#### **E. PGC CORRECTION**

In 2018, the Company discovered a mathematical error in a PGC workpaper that resulted in an unreconciled overcollection for North Rate District customers and an undercollection for Central Rate District customers. Specifically, a discrepancy occurred between PGC revenues documented in the Company’s accounting records and reported in Schedule C (the Computation of the Experienced Cost Factor or “E-Factor”) of the 2008 PGC case for UGI-PNG (current North Rate District). (UGI Gas St. No. 4-S, p. 3). This discrepancy resulted in a one-time incorrect overcollection amount of \$6,545,504 for the impacted customers. (UGI Gas St. No. 4-S, p. 3). A similar discrepancy occurred in the amount used to calculate the December 2008

“Prior Under Collection” Beginning Balance in Schedule C of the 2008 PGC case for UGI-CPG (current Central Rate District). (UGI Gas St. No. 4-S, pp. 3-4). It contained an estimated (not actual) undercollection amount for November 2008 and related interest. Including the estimated undercollection amount was incorrect and resulted in a net undercollection of \$1,557,049 for the impacted customers. (UGI Gas St. No. 4-S, p. 4). The uncontested principal net overcollection resulting from these errors is \$4,988,455. (UGI Gas St. No. 4-S, p. 5). Between the time the errors occurred and the discovery of the errors in 2018, the errors were not previously identified in the accounting processes, despite numerous missed opportunities. (UGI Gas St. No. 4-S, p. 4).

In order to address the accounting errors, the Company first proposed the PGC Correction in the Company’s 2019 Base Rate Case. However, the parties to the 2019 Base Rate Settlement agreed in Paragraph 30 that the issue of the PGC correction would be addressed in this PGC proceeding, rather than in the base rate proceeding.

In this PGC proceeding, there were two areas of dispute regarding the PGC Correction: the interest applicable to the refund, and the mechanism for refunding the net overcollection. In its direct testimony, UGI Gas proposed that in addition to the principal, one year of interest should be included in the refund, for a total amount of \$5,418,673. (UGI Gas St. No. 4-S, pp. 4-5). The Company proposed one year of interest because the errors at issue in this proceeding were first missed by all parties in 2008, which is where they might have been corrected. (UGI Gas St. No. 4-S, p. 5). The errors also could have been corrected in the 2009 PGC where the parties would have reviewed projected figures from the 2008 case, when the appropriate amounts would have been refunded to customers as part of the 2009 PGC proceeding, with one year’s interest, pursuant to 66 Pa. C.S. § 1307(f)(5). (UGI Gas St. No. 4-S, p. 5). Thus, under the Commission’s regulations governing PGC proceedings, only one year of interest was

appropriate. Further, the Company self-identified the errors at issue, after it and all the parties to PGC proceedings over the past ten years, as well as two audits performed by the Commission for the time periods at issue, failed to identify the errors. (UGI Gas St. No. 4-R, p. 6). The Company proposed that the principal plus one year of interest be refunded in a one-time bill credit to all PGC customers. (UGI Gas St. No. 4-S, pp. 4-5).

I&E witness Mr. Keller testified in support of the equivalent of two years of interest to be added to the principal, for a total of \$5,852,167. Mr. Keller testified that, “an additional interest consideration should be provided to the PGC customers that would recognize a minimal subsequent year adjustment and provide some compensation to customers for the Company’s use of that money.” (I&E St. No. 1, p. 21). Mr. Keller, therefore, applied a simple interest rate of 8% to the Company’s proposed total correction amount resulting in his recommended total correction amount of \$5,852,167. (I&E St. No. 1, p. 21). Mr. Keller also proposed that the PGC Correction be addressed through a consolidated PGC E-factor rate adjustment beginning with the effective date of the new PGC rates (December 1, 2019) to correct the net overcollection. (I&E St. No. 1, p. 23).

OCA witness Mr. Mierzwa disagreed with these two approaches. Mr. Mierzwa recommended that the interest calculation should be applied starting from the time the overcollection error occurred until the date that rates returning the net overcollection to customers become effective, at the applicable monthly interest rate for that period, resulting in OCA’s proposed overall PGC credit of \$9,506,926, inclusive of \$4,518,471 in interest. (OCA St. No. 1, p. 6). Mr. Mierzwa recommended that the refund of the net overcollection be given exclusively to North Rate District customers, because they were the customers who had contributed to the overcollection. (OCA St. No. 1, p. 6).

In order to resolve this issue, the Parties have agreed that UGI Gas will refund \$5,852,167 through a consolidated PGC E-factor rate adjustment beginning with the effective date of the new PGC rate (December 1, 2019) to correct the over/undercollection. (Settlement ¶ 21). This reflects a significant compromise by all parties to this proceeding in order to reach a fair resolution that meets the Company's regulatory accounting needs and provides a direct benefit to customers in the form of a lower PGC rate than would otherwise be applied. Finally, this resolution is in the public interest because it strikes the appropriate balance that does not punish the utility for self-reporting its errors promptly when they were identified, and produces just and equitable results whether the amount at issue will result in a refund to or a recovery from ratepayers. (UGI Gas St. No. 4-R, p. 7).

## **II. CONCLUSION**

As explained above, the Settlement is in the public interest and should be approved. The Settlement was achieved only after considerable investigation of the Company's gas procurement practices, through both discovery and submission of testimony by a number of parties. The Settlement, if approved by the Administrative Law Judge 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.


The Joint Petitioners also request that the required statutory findings be made in this proceeding. These statutory findings are appropriate and are amply supported by the Settlement, UGI Gas's pre-filing information (UGI Gas Exhibit 1), UGI Gas's definitive PGC filing (UGI Gas Exhibit 2), and UGI Gas's testimony in this proceeding.

The Settlement is the result of compromise. Each of the terms set forth in the Settlement resolves a dispute fairly and without the expense and uncertainty associated with litigation. UGI

Gas accordingly fully supports the Settlement and respectfully requests that Administrative Law Judge Benjamin J. Myers and the Commission approve the Settlement without modification.

Respectfully submitted,

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Date: August 16, 2019

# **APPENDIX B**

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2019-3009647
	:	
UGI Utilities, Inc. - Gas Division	:	
South, North and Central Rate Districts	:	

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**BUREAU OF INVESTIGATION AND ENFORCEMENT  
STATEMENT IN SUPPORT OF  
JOINT PETITION FOR SETTLEMENT OF  
1307(f) RATES INVESTIGATION**

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**TO: ADMINISTRATIVE LAW JUDGE BENJAMIN J. MYERS**

The Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), by and through Prosecutor Scott B. Granger, hereby respectfully submits that the terms and conditions of the foregoing Joint Petition for Settlement of Section 1307(f) Rate Investigation (“Joint Petition” or “Settlement”) are in the public interest and represent a fair, just, and reasonable balance of the interests of UGI Utilities, Inc. - Gas Division (“UGI” “UGI Gas” or “Company”), I&E, the Office of Consumer Advocate (“OCA”), the Office of Small Business Advocate (“OSBA”), UGI Industrial Intervenors (“UGIII”) (parties in the above-captioned proceeding and hereinafter collectively referred to as the “Parties”), and the UGI Gas customers.

## I. BACKGROUND

I&E is charged with representing the public interest in Commission proceedings related to rates, rate-related services, and applications affecting the public interest. In negotiated settlements, it is incumbent upon I&E to identify how amicable resolution of any such proceeding benefits the public interest and to ensure that the public interest is served. Based upon I&E's analysis of UGI's 2019 Section 1307(f) purchased gas costs ("PGC") filing, acceptance of this proposed Settlement is in the public interest and I&E recommends that Administrative Law Judge Benjamin J. Myers (the "ALJ") and the Commission approve the Settlement in its entirety.

1. In past years, the Company made three separate annual Section 1307(f) filings for UGI Utilities Inc., - Gas Division (now South Rate District), UGI Penn Natural Gas, Inc. (now North Rate District), and UGI Central Penn Gas, Inc. (now Central Rate District). However, pursuant to the *Joint Application of UGI Utilities, Inc., UGI Penn Natural Gas, Inc., and UGI Central Penn Gas, Inc.* (hereinafter referred to as the "Merger"), which was approved on September 20, 2018, UGI Gas merged the three natural gas distribution companies ("NGDCs") into the one remaining NGDC, UGI Gas, with three rate districts.

2. This year, UGI Gas made a single PGC filing, consistent with its new merged corporate structure. This filing contained data in support of four different PGC rates: individual rates per three rate districts calculated on a stand-alone basis; and a unified rate for all three districts.

3. Consistent with the Merger settlement, and as part of the 2019 Base Rate Proceeding, which was ongoing at the time of this PGC filing, UGI Gas proposed to consolidate the PGC into a unified rate.

4. On May 1, 2019, pursuant to 52 Pa. Code Sections 53.64(c) and 53.65 of the Commission's Rules and Regulations, UGI Gas submitted its pre-filing information ("Book 1") in support of its annual reconciliation of its purchased gas cost tariffs.

5. On May 31, 2019, pursuant to 52 Pa. Code Section 53.64(a), UGI Gas submitted its definitive 2019 PGC filing ("Book 2") to the Commission, which included UGI's proposed *Pro Forma* Tariff Addendums to (1) UGI South's Tariff Gas – Pa. P.U.C. No. 6 and 6-S; (2) UGI North's Tariff Gas – Pa. P.U.C. No. 9 and 9-S; (3) UGI Central's Gas – Pa. P.U.C. No. 4 and 4-S; and (4) the consolidated Tariff Gas – Pa. P.U.C. No. 7 and 7S to become effective for service rendered on and after December 1, 2019, and the supporting written direct testimony of its witnesses.

6. In this filing UGI South proposed a PGC rate of \$6.0098 per Mcf, effective December 1, 2019. The current PGC rate of \$5.6051 per Mcf became effective June 1, 2019. Tariff Supplement No. 31 to UGI Gas – Pa. P.U.C. No. 6 reflected a quarterly PGC rate increase of \$0.1589 per Mcf (2.9% increase) from the PGC rate that took effect March 1, 2019. The calculated PGC rate of \$6.0098 per Mcf, effective December 1, 2019, is a \$0.4047 per Mcf (7.2%) increase from the current PGC rate.

7. UGI North proposed a PGC rate of \$4.3204 per Mcf, effective December 1, 2019. The current PGC rate of \$4.5559 per Mcf became effective June 1, 2019. Tariff Supplement No. 21 to UGI Gas – Pa. P.U.C. No. 9 reflected a quarterly PGC rate

increase of \$0.1926 per Mcf (4.4% increase) from the PGC rate that took effect March 1, 2019. The calculated PGC rate of \$4.3204 per Mcf, effective December 1, 2019, is a \$0.2355 per Mcf (5.2%) decrease from the current PGC rate.

8. UGI Central proposed a PGC rate of \$4.5839 per Mcf, effective December 1, 2019. The current PGC rate of \$4.2508 per Mcf became effective March 1, 2019. Tariff Supplement No. 70 to UGI Gas – Pa. P.U.C. No. 4 reflected a quarterly PGC rate increase of \$0.2465 per Mcf (6.2% increase) from the PGC rate that took effect December 1, 2018. The calculated PGC rate of \$4.5839 per Mcf, effective December 1, 2019, is a \$0.3331 per Mcf (7.8%) increase from the current PGC rate.

9. On May 9, 2019 the OCA filed a Notice of Appearance, a Formal Complaint, and a Public Statements in this PGC proceeding.

10. On May 13, 2019 I&E filed its Notice of Appearance in this PGC proceeding.

11. On May 20, 2019 the OSBA filed a Notice of Appearance, a Complaint and a Public Statement in this PGC proceeding.

12. On June 19, 2019 the UGI Industrial Intervenors (“UGIII”) filed a Petition to Intervene in this PGC proceeding.

13. A telephonic prehearing conference was held on June 21, 2019, during which the Parties agreed to a schedule for the conduct of the case including the service of testimony among the parties and the dates for evidentiary hearings. As no evidence of the need for public input hearings was presented nor a request for one made, none was scheduled or held.

14. All of the Parties undertook thorough discovery in this proceeding. I&E commenced discovery shortly after the filing was made and continued to conduct discovery throughout the proceeding.

15. In accordance with the procedural schedule established at the prehearing conference, I&E served to all active parties the following two (2) pieces of testimony and accompanying exhibits from one (1) I&E witness addressing the subjects of C-factor quarterly PGC rate adjustments; E-factor reconciliation; peak service contract payment schedule, applicable interest on over/under collections; and PGC corrections from 2008:

I&E witness Christopher Keller submitted:

- I&E Statement No. 1 and I&E Exhibit No. 1 - the Direct Testimony of Christopher Keller and accompanying Exhibit; and,
- I&E Statement No. 1-SR (PROPRIETARY and NON-PROPRIETARY) and I&E Exhibit No. 1-SR (PROPRIETARY and NON-PROPRIETARY) – the Surrebuttal Testimony of Christopher Keller and accompanying Exhibit.

16. In accordance with Commission policy favoring settlements at 52 Pa. Code § 5.231, I&E participated in multiple telephonic settlement discussions with the Company and the other Parties to the proceeding. Following extensive settlement negotiations and recognizing that a settlement is the result of compromises made by all Parties, the Parties in this proceeding reached a full and complete Settlement of all issues.

17. The hearing which was scheduled for July 31, 2019 was cancelled and the Parties agreed to waive cross examination for all witnesses and submit the written testimony into the record by stipulation with accompanying signed verifications of the sponsoring witnesses.

## II. TERMS AND CONDITIONS OF SETTLEMENT

18. “The prime determinant in the consideration of a proposed Settlement is whether the settlement is in the public interest.”<sup>1</sup> The Commission has recognized that a settlement “reflects a compromise of the positions held by the parties of interest, which, arguably fosters and promotes the public interest.”<sup>2</sup>

19. I&E submits that the Settlement in the instant proceeding balances the interests of the Company, its customers, and the Parties in a fair and equitable manner and presents a resolution for the Commission’s adoption that best serves the public interest. Furthermore, the negotiated Settlement demonstrates that compromises are evident throughout the Stipulation. Accordingly, for the specific reasons articulated below to achieve the full scope of benefits addressed in the Settlement, I&E requests that the Settlement be recommended by ALJ Myers; and approved by the Commission, without modification.

### A. Unified PGC Rate (Joint Petition ¶ 16).

#### 1. Settlement Terms.

In the Settlement, UGI and the Parties agree, consistent with the Joint Petition for Settlement of the UGI’s recent Merger proceeding (at Docket Nos. A-2018-3000381, A-2018-3000382 and A-2018-3000383), and as proposed by the Company, and agreed upon by the parties to the Joint Petition for Settlement submitted in the pending 2019 UGI Gas Base Rate Proceeding (at Docket No. R-2018-3006814), UGI Gas has proposed in this proceeding to adopt a unified approach to calculating the PGC, and a unified PGC rate.

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<sup>1</sup> *Pennsylvania Public Utility Commission v. Philadelphia Electric Company*, 60 PA PUC 1, 22 (1985).

<sup>2</sup> *Pennsylvania Public Utility Commission v. C S Water and Sewer Associates*, 74 PA PUC 767, 771 (1991).

The unified PGC rate will be applied to the entire UGI Gas service territory effective December 1, 2019. The adoption of the unified PGC rate in this proceeding is contingent upon Commission approval of the Joint Petition for Settlement filed on July 22, 2019 in the 2019 Base Rate Proceeding.

2. *Discussion.*

In addition to the PGC rates proposed by UGI Gas in this proceeding and detailed *supra* at paragraphs 6-8, UGI also proposed a consolidated PGC rate of \$5.2064 per Mcf, effective December 1, 2019. The proposed consolidated PGC rate of \$5.2064 per Mcf is a \$0.3987 per Mcf (7.1%) **decrease** from UGI South's current PGC rate; a \$0.6505 per Mcf (14.3%) **increase** from UGI North's current PGC rate; and, a \$0.9556 per Mcf (22.5%) **increase** from UGI Central's current PGC rate.

Further, the 2019 UGI Gas Base Rate Proceeding was settled in July and the settlement documents were submitted on July 22, 2019. In that Settlement the parties agreed that the Company's proposal to move all rate classes to uniform distribution and purchased gas cost rates on the effective date of new rates established in the base rate proceeding was accepted; provided, however, that for Rate N/NT and Rate DS, uniform distribution rates will be achieved in two steps (Step 1 beginning with the effective date of new rates and Step 2 effective with new rates established in the Company's next general rate proceeding under 66 Pa. C.S. § 1308(d)). For Step 1, the Rate N/NT North rate district rates will be increased by twelve (12) percent and Rate DS North rate district rates will be increased by twenty (20) percent, with Rate N/NT and Rate DS South and Central rate districts being set uniformly by class to recover the remaining N/NT and DS

revenue requirements, respectively. For Step 2, the parties reserved their rights to oppose the Company's proposed rates and propose alternative rates. Additionally, it was agreed in the base rate proceeding that PGC rate consolidation will occur with the effective date of the new PGC year, December 1, 2019.

### *3. Conclusion.*

I&E supports the Unified PGC rate settlement terms as reflecting a full and fair compromise of the issues raised by the Parties and, accordingly, is in the public interest. I&E recognizes that these settlement terms are the result of compromises by the Parties and do 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. The Parties reached this compromise after lengthy negotiations and I&E believes the agreed upon Settlement terms reflect the amicable agreement among UGI and the Parties.

## **B. Peaking Contracts (Joint Petition ¶ 17).**

### *1. Settlement Terms.*

In the Settlement, UGI and the Parties agree, the Company will continue to use the modified RFPs as agreed to in the 2018 PGC Settlement on a prospective basis. The Company's bid form will request, at a minimum, that suppliers provide bids based on (a) payment terms that exclude a November payment and (b) payment terms that include a November payment. The Company will evaluate RFP responses in a manner, which is inclusive of projected PGC interest impacts with regard to fixed charges. The Company will make the RFP responses available in future PGC proceedings to the statutory Parties.

## 2. Discussion.

This issue is carried over from the 2018 UGI PGC proceeding. In the 2018 settlement the parties agreed that the Company will modify its RFPs for November 1, 2019 – October 31, 2020 peaking services as follows: the Company's bid form will require suppliers to provide bids based on (a) payment terms that exclude a November payment and (b) payment terms that include a November payment. For future RFP solicitations, UGI will follow the RFP process described in the settlement documents. 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.

In this 2019 proceeding, I&E again recommended that UGI's peak service contract payment schedules be modified to remove a November payment from the peak service contract payment schedule and instead spread the payments over four months (December through March) instead of the usual five-month payment period (November through March).<sup>3</sup> I&E has consistently reasoned that the November peak service contract payment consistently causes an under collection in November (the last month of UGI's PGC year).<sup>4</sup> November is the beginning of the heating season with usage amounts well below projected and experienced usage for the heating months of December through March.<sup>5</sup> Despite anticipated and projected low usage and revenue in November, ratepayers are assessed a cost for peak contracts that exceeds the need in that month, the

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<sup>3</sup> I&E St. No. 1, p. 7.

<sup>4</sup> I&E St. No. 1, p. 6.

<sup>5</sup> *Id.*

last month of the PGC year.<sup>6</sup> The Company's own data does not support claims of winter usage levels in November, so payment for peak winter usage coverage in that month, which always results in an under collection and an attendant interest amount due from ratepayers, is unreasonable.<sup>7</sup> From the current filing, peak sales months are December through March; therefore, I&E's recommendation to begin payments in December would better align costs with revenues. Additionally, any incremental over/under collections that result in these months, at the beginning of the PGC year, have a much greater likelihood of being refunded or recovered in ensuing months and thereby minimizing the annual E-factor.<sup>8</sup>

### *3. Conclusion.*

I&E supports the peaking contracts settlement terms as reflecting a full and fair compromise of the issues raised by the Parties and, accordingly, is in the public interest. I&E recognizes that these settlement terms are the result of compromises by the Parties and do 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. The Parties reached this compromise after lengthy negotiations and I&E believes the agreed upon Settlement terms reflect the amicable agreement among UGI and the Parties.

## **C. Quarterly PGC Adjustments (Joint Petition ¶ 18).**

### *1. Settlement Terms.*

In the Settlement, UGI and the Parties agree that UGI Gas will conduct a three-year side by side analysis of the use of Quarterly Adjustment Methodologies ("QAM")

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<sup>6</sup> *Id.*

<sup>7</sup> *Id.*, p. 7.

<sup>8</sup> *Id.*, p. 7.

comparing the results of using the QAM 1 (annual sales) and QAM 2 (remaining life / truncation) methods and the resulting impacts on the E-factor. The Company will provide the results of that study and a recommendation in the UGI PGC proceeding filed on June 1, 2023. While the study is being conducted, the Company will calculate its quarterly PGC rate changes in the same manner as approved in the settlement of its 2017 PGC proceeding.

## 2. Discussion.

This issue is also an ongoing issue continuing from past UGI PGC proceedings. In this 2019 proceeding, UGI proposed to continue to use the methodology per the settlement agreement in the 2017 1307(f) proceeding. As part of that 2017 agreement, UGI negotiated a settlement allowing the Company to continue to use the rate caps on quarterly rate changes of 15% for September 1<sup>st</sup> and 25% for December 1<sup>st</sup>, March 1<sup>st</sup>, and June 1<sup>st</sup> quarterly filings.<sup>9</sup> Additionally, UGI proposed that it will use either annual sales or remaining life sales for each quarterly filing to determine the PGC rate change.<sup>10</sup>

To put this issue into context, I&E provided a brief history in its direct testimony.<sup>11</sup> In the 2014 settlement,<sup>12</sup> the Company agreed to utilize the remaining life methodology recommended by I&E, with the exception that the final quarterly filing on September 1 of each year would be calculated over a six-month remaining life volume instead of the actual three-month remaining life volume. The Company also included a

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<sup>9</sup> I&E St. No. 1, p. 9. See *Pa PUC v. UGI Utilities, Inc. - Gas*, Docket No. R-2017-2602638.

<sup>10</sup> *Id.*, citing UGI St. No. 3, p. 5.

<sup>11</sup> I&E St. No. 1, pp. 9-10.

<sup>12</sup> See *Pa. PUC v. UGI Utilities, Inc., - Gas*, Docket No. R-2014-2420276.

quarterly rate adjustment cap of 25% to limit the volatility of the remaining life methodology.

Then, in the 2016 settlement,<sup>13</sup> the Company agreed to include a quarterly rate adjustment cap of 15% for its September 1<sup>st</sup> quarterly filing, starting September 1, 2017 using a three-month remaining life volume with any amount above the cap being brought forward for inclusion in the calculation of subsequent quarterly PGC rate adjustment in order to limit the volatility of the remaining life methodology.

And, as stated earlier, in the 2017 settlement,<sup>14</sup> UGI negotiated to utilize either annual sales or remaining life sales for each quarterly filing to determine the PGC rate change and agreed to continue using the rate caps on quarterly rate changes of 15% for September 1<sup>st</sup> and 25% for December 1<sup>st</sup>, March 1<sup>st</sup>, and June 1<sup>st</sup> quarterly filings. Which brings us to UGI's 2019 proposal to continue this methodology in the instant 1307(f) proceeding.

I&E continues to recommend that UGI continue the quarterly rate caps in conjunction with the remaining life methodology as agreed to in the 2016 1307(f) proceeding discussed above.<sup>15</sup> I&E continues to believe that under the current methodology; wherein the second, third, and fourth quarter C-factors are calculated by dividing incremental over/under collection and the remaining month's over/under collections by an annual volume; there is no real possibility that the over/under collections will be recovered or refunded by the rate set in the final quarter.<sup>16</sup> This failure

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<sup>13</sup> See *Pa. PUC v. UGI Utilities, Inc., - Gas*, Docket No. R-2016-2543309.

<sup>14</sup> See *Pa. PUC v. UGI Utilities, Inc., - Gas*, Docket No. R-2017-2602638.

<sup>15</sup> I&E St. No. 1, pp. 10-16.

<sup>16</sup> *Id.*, p. 11, 16.

to prospectively recover the ongoing over/under collections will always result in increased over/under collections generating the attendant interest that must be recovered in the subsequent PGC year via the E-factor.<sup>17</sup> Finally, I&E rejected the argument that the National Fuel Gas (“NFG”) Commission Order was precedent setting or applicable to UGI’s or any natural gas distribution company’s PGC proceedings other than NFG’s.<sup>18</sup>

3. *Conclusion.*

I&E supports the quarterly PGC adjustment settlement terms as reflecting a full and fair compromise of the issues raised by the Parties and, accordingly, is in the public interest. I&E recognizes that these settlement terms are the result of compromises by the Parties and do 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. The Parties reached this compromise after lengthy negotiations and I&E believes the agreed upon Settlement terms reflect the amicable agreement among UGI and the Parties.

**D. Interest on Over/Under Collections (Joint Petition ¶ 19).**

*1, Settlement Terms.*

In the Settlement, UGI and the Parties agree that on a going forward basis, beginning with the filing of its proposed tariff on or before June 1, 2020 in its next annual PGC filing, UGI Gas will use the prime rate in effect 60 days prior (April 2) to the annual PGC filing date (June 1). The 60-day prime rate will be applied to the over- and under-collection balances for the PGC period December 1 of the prior year through November 30 of the PGC year.

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<sup>17</sup>

*Id.*

<sup>18</sup>

I&E St. No. 1-SR, pp. 13-17.

## 2. Discussion.

UGI proposed using an interest rate of 4.75% for the period December 2018 through March 2019, and 5.50% for the period April 2019 through November 2019.<sup>19</sup>

I&E recommended using an interest rate of 5.50% for the entire PGC year.<sup>20</sup> I&E relied on the Public Utility Code's mandate that:

Refunds to customers shall be made with and recoveries from customers shall include interest at the prime rate for commercial borrowing in effect 60 days prior to the tariff filing made under paragraph (1) and as reported in a publicly available source identified by the commission or at an interest rate which may be established by the commission by regulation.<sup>21</sup>

I&E reasoned that UGI filed its tariff on June 1, 2019 and the prime rate for commercial borrowing as of April 2, 2019 was 5.50%.<sup>22</sup> Further, the Public Utility Code specifically states that the prime rate for commercial borrowing in effect 60 days prior to the tariff filing (April 2, 2019) should be used, and in this case that rate was 5.50%.<sup>23</sup>

## 3. Conclusion.

I&E supports the interest on over/under collections settlement terms as reflecting a full and fair compromise of the issues raised by the Parties and, accordingly, is in the public interest. I&E recognizes that these settlement terms are the result of compromises by the Parties and do 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. The

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<sup>19</sup> I&E St. No. 1, pp. 16-17, *citing* UGI Book 2, South Rate District, Schedule C, pp. 6-7; North Rate District, Schedule C, pp. 5-6; and Central Rate District Schedule C, pp. 5-6.

<sup>20</sup> *Id.*, p. 17.

<sup>21</sup> 66 Pa. C.S. § 1307(f)(5) (*as amended* 2016).

<sup>22</sup> I&E St. No. 1, p. 18, *citing* I&E Exh. No. 1, Sch. 2.

<sup>23</sup> *Id.*

Parties reached this compromise after lengthy negotiations and I&E believes the agreed upon Settlement terms reflect the amicable agreement among UGI and the Parties.

**E. 2008 PGC Overcollection Correction (Joint Petition ¶ 20).**

*1. Settlement Terms.*

In the Settlement, UGI and the Parties agree that the Company will refund \$5,852,167 through a consolidated PGC E-factor rate adjustment beginning with the effective date of the new PGC rates (December 1, 2019) to correct the net overcollection.

*2. Discussion.*

Recently UGI Gas identified an error in Schedule C of the North Rate District's (formerly known as UGI Penn Natural Gas, Inc.) 2008 Section 1307(f) PGC rate filing.<sup>24</sup> Based on this review, the Company has concluded that the North Rate District had incorrectly overstated the net under collected balance by \$6,545,504.<sup>25</sup> Upon finding this error, the Company's management performed a further review of the PGC filings for the Central Rate District (formerly known as UGI Central Penn Gas, Inc.) and the South Rate District (formerly known as UGI Utilities Inc. – Gas Division).

During the review of the Central Rate District's Section 1307(f) PGC filing, a similar error was identified on Schedule C of the 2008 Section 1307(f) PGC filing.<sup>26</sup> Specifically, amounts used to calculate the December 2008 "Prior Under Collection" Beginning Balance included an estimate of the November 2008 under collections and omitted a true-up adjustment for the November 2008 actual activity.<sup>27</sup> The net impact of

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<sup>24</sup> I&E St. No. 1, p. 18.

<sup>25</sup> *Id.*, p. 18, *citing* UGI St. No. 4-S, p. 3.

<sup>26</sup> *Id.*, p. 18, *citing* UGI St. No. 4-S, p. 3-4.

<sup>27</sup> *Id.*, p. 18.

this error was a \$1,557,049 understatement of the Company's filed under collected balance.<sup>28</sup>

UGI Gas self-reported their findings in its recent base rate proceeding at Docket No. R-2018-3006814 and the parties in that proceeding eventually agreed to move the issue to this PGC proceeding for final negotiations.<sup>29</sup> UGI proposed to refund a total of \$5,418,673 to customers through a one-time monthly bill credit in December of 2019.<sup>30</sup>

I&E reviewed the issue and applauded the Company's proposal to make the customers essentially whole for the error that occurred in the 2008-2009 PGC year.<sup>31</sup> I&E then recommended an additional interest consideration be provided to the PGC customers that would recognize a minimal subsequent year adjustment and provide some compensation to customers for the Company's use of that money.<sup>32</sup> Accordingly, I&E recommended that the amount to be refunded provide an additional adjustment to reflect payment at a simple interest rate of 8% to the 2008-2009 net result of \$5,418,673 adjusting the total amount to be refunded to customers to \$5,852,167 ( $\$5,418,673 \times 8\%$ ) through an E-factor adjustment.<sup>33</sup>

### 3. Conclusion.

I&E supports the 2008 PGC overcollection correction settlement terms as reflecting a full and fair compromise of the issues raised by the Parties and, accordingly, is in the public interest. I&E recognizes that these settlement terms are the result of compromises by the Parties and do not necessarily represent the position(s) that would be

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<sup>28</sup> I&E St. No. 1, p. 18, *citing* UGI St. No. 4-S, pp. 3-4. *See also*, I&E Exh. No. 1, Sch. 2.

<sup>29</sup> I&E St. No. 1, p. 19, *citing* UGI St. No. 4-S, pp. 4-5.

<sup>30</sup> *Id.*

<sup>31</sup> I&E St. No. 1, p. 21.

<sup>32</sup> *See* I&E St. No. 1, pp. 20-21; I&E St. No. 1-SR, pp. 35-36.

<sup>33</sup> I&E St. No. 1, pp. 21-22; I&E St. No. 1-SR, pp. 33-36.

advanced by I&E or the other Parties in the event this proceeding were to be fully litigated. The Parties reached this compromise after lengthy negotiations and I&E believes the agreed upon Settlement terms reflect the amicable agreement among UGI and the Parties.

### **III. THE SETTLEMENT SATISFIES THE PUBLIC INTEREST**

20. 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. The very nature of a settlement requires compromise on the part of all parties. This Settlement exemplifies the benefits to be derived from a negotiated approach to resolving what can appear at first blush to be irreconcilable regulatory differences. The Parties have carefully discussed and negotiated all issues raised in this proceeding, and specifically those addressed and resolved in this Settlement. 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. I&E is satisfied that no further action is necessary and considers its investigation of this Section 1307(f) filing complete.

21. I&E further submits that the acceptance of this Settlement negates the need for evidentiary hearings, which would compel the extensive devotion of time and expense for the preparation, presentation, and cross-examination of multiple witnesses, the preparation of Main and Reply Briefs, the preparation of Exceptions and Replies, and the potential of filed appeals, all yielding substantial savings for all parties and ultimately all

customers. Moreover, the Settlement provides regulatory certainty with respect to the disposition of issues and final resolution of this case which all the Parties agree benefits their discrete interests and is in the public interest.

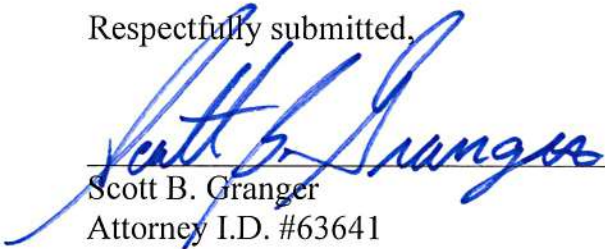
22. The Settlement is conditioned upon the Commission's approval of all terms without modification. Should the Commission fail to grant such approval or otherwise modify the terms and conditions of the Settlement, it may be withdrawn by the Company, I&E, or any other Party.

23. This Settlement is being presented only in the context of this Section 1307(f) proceeding to resolve certain outstanding issues in a manner that is fair and reasonable. I&E's agreement to settle this case is made without any admission or prejudice to any position that I&E might adopt during subsequent litigation in the event the Settlement is rejected by the Commission or otherwise properly withdrawn by any other Parties to the Settlement. Furthermore, the Settlement reflects compromises on all sides, and is presented without prejudice to the positions that any of the parties may advance in future UGI proceedings on the merits of the issues.

24. If ALJ Myers recommends that the Commission adopt the Settlement as proposed, I&E agrees to waive the filing of Exceptions. However, I&E does not waive its right to file Replies to Exceptions with respect to any modifications to the terms and conditions of the Settlement or any additional matters that may be proposed by ALJ Myers in his Recommended Decision. Further, I&E does not waive the right to file Replies in the event any party files Exceptions.

**WHEREFORE**, the Commission's Bureau of Investigation and Enforcement represents that it supports the Joint Petition for Settlement of Section 1307(f) Rates Investigation as being in the public interest and respectfully requests that Administrative Law Judge Benjamin J. Myers recommends, and the Commission approve, the terms and conditions contained in the Settlement without modification.

Respectfully submitted,



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Scott B. Granger  
Attorney I.D. #63641

Bureau of Investigation and Enforcement  
Pennsylvania Public Utility Commission  
400 North Street  
Harrisburg, Pennsylvania 17120  
(717) 787-4887

Dated: August 15, 2019

# APPENDIX C

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

555 Walnut Street, 5th Floor, Forum Place  
Harrisburg, Pennsylvania 17101-1923  
(717) 783-5048  
800-684-6560

FAX (717) 783-7152  
consumer@paoca.org

August 16, 2019

Administrative Law Judge Benjamin J. Myers  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street  
Harrisburg, PA 17120

Re: Pa. Public Utility Commission  
v.  
UGI Utilities, Inc. - Gas Division 1307(f)  
Docket No. R-2019-3009647

Dear ALJ Myers:

Please be advised that the Office of Consumer Advocate (OCA) does not oppose the Joint Petition for Settlement of Section 1307(f) Rate Investigation in the above referenced proceeding.

Respectfully submitted,

A handwritten signature in black ink that reads "Lauren M. Burge".

Lauren M. Burge  
Assistant Consumer Advocate  
PA Attorney I.D. # 311570  
E-Mail: [LBurge@paoca.org](mailto:LBurge@paoca.org)

J.D. Moore  
Assistant Consumer Advocate  
PA Attorney I.D. # 326292  
E-Mail: [JMoore@paoca.org](mailto:JMoore@paoca.org)

# APPENDIX D

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**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

<b>PENNSYLVANIA PUBLIC UTILITY COMMISSION</b>	:	
	:	
v.	:	<b>DOCKET NO. R-2019-3009647</b>
	:	
<b>UGI UTILITIES, INC. – GAS DIVISION</b>	:	

**STATEMENT OF  
THE OFFICE OF SMALL BUSINESS ADVOCATE  
IN NON-OPPOSITION TO THE  
JOINT PETITION FOR SETTLEMENT OF SECTION 1307(F) RATE INVESTIGATION**

**Introduction**

The Small Business Advocate is authorized and directed to represent the interests of the small business consumers of utility services in the Commonwealth of Pennsylvania under the provisions of the Small Business Advocate Act, Act 181 of 1988, 73 P.S. §§ 399.41 - 399.50. Pursuant to that statutory authority, the Office of Small Business Advocate (“OSBA”) filed a complaint in the above-captioned proceeding, which was initiated by UGI Utilities, Inc. – Gas Division (“UGI Gas” or the “Company”) on May 31, 2019.

The OSBA participated in the negotiations that led to the proposed settlement but is not a signatory to the Joint Petition for Settlement of Section 1307(f) Rate Investigation (“*Joint Petition*”). The OSBA states that it does not oppose the *Joint Petition*.

The OSBA submits this statement to address the issues raised in its *PreHearing Memo*.

## **The OSBA Complaint**

In its prehearing memo, the OSBA identified four issues that it intended to pursue in this proceeding:

- Whether the Company's actual and forecast load and unaccounted-for gas ("UFG") rates are reasonable;
- Whether the Company's capacity release/off-system sales sharing mechanism is being reasonably employed and is properly incenting the Company to maximize the value of assets paid for by its customers;
- Whether the Company's design day demand forecasting and peak day capacity requirements are reasonable;
- Whether the Company's unification of natural gas rates shall be performed in a just and reasonable manner.

Regarding the first issue, OSBA did not identify any significant concerns about either the level or trends in UFG rates in this proceeding.

Regarding the second issue, the Company continues to use the standard 75/25 sharing mechanism, and OSBA did not contest continued use of that mechanism in this proceeding.

Regarding the third issue, time and budget constraints precluded the OSBA from undertaking an independent detailed evaluation of the Company's design day forecasting method in this proceeding. No party expressed any concern about the Company's method in this proceeding.

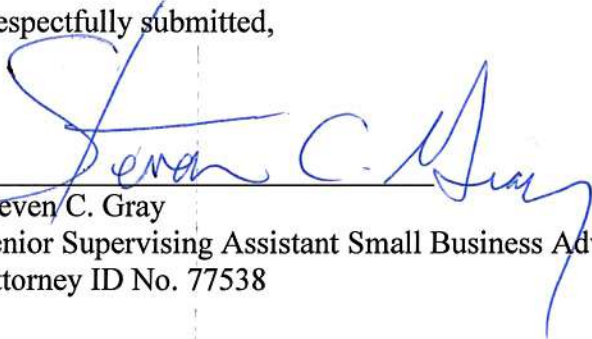
Regarding the fourth issue, the harmonization of the PGC rates was evaluated in detail in the Company's recent base rates proceeding at Docket No. R-2018-3006814. In that proceeding, the OSBA presented extensive quantitative analysis and testimony regarding the impacts of

harmonizing both base rates and PGC rates on small business customers. That proceeding was tentatively resolved by settlement (“BR Settlement”), pending Commission approval. The OSBA was a signatory to the BR Settlement. The BR Settlement addresses the rate harmonization issue by permitting the near-term harmonization of PGC rates, with the phased harmonization of certain non-residential base rates over multiple rate proceedings. Paragraph 16 of the *Stipulation* is consistent with the BR Settlement regarding PGC rates.

**Conclusion**

For the reasons set forth above, the OSBA respectfully submits that its complaint has been satisfied. Furthermore, the OSBA does not oppose the *Joint Settlement*.

Respectfully submitted,

  
\_\_\_\_\_  
Steven C. Gray  
Senior Supervising Assistant Small Business Advocate  
Attorney ID No. 77538

Office of Small Business Advocate  
300 North Second Street, Suite 202  
Harrisburg, PA 17101

Dated: August 16, 2019

# APPENDIX E

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**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2019-3009647
Office of Consumer Advocate	:	C-2019-3009778
Office of Small Business Advocate	:	C-2019-3010038
	:	
v.	:	
	:	
UGI Utilities, Inc. – Gas Division 1307(f)	:	

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**STATEMENT OF NON-OPPOSITION TO JOINT PETITION FOR SETTLEMENT OF  
SECTION 1307(f) RATE INVESTIGATION**

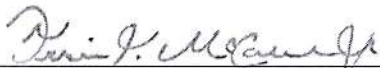
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**TO ADMINISTRATIVE LAW JUDGE BENJAMIN J. MYERS:**

UGI Industrial Intervenors (“UGIII”) have participated as parties in the above captioned matter and wish to state that they do not oppose the Joint Petition for Approval of Settlement Stipulation (“Settlement”) filed with the Pennsylvania Public Utility Commission (“Commission”) on August 16, 2019. Should the Presiding Administrative Law Judge or the Commission impose any modifications to the Settlement, however, UGIII expressly reserves their rights to litigate any issues raised by any of the parties in any subsequent litigation, before the Commission or otherwise, or in any appeal.

Respectfully submitted,

McNEES WALLACE & NURICK LLC

By   
Pamela C. Polacek (I.D. No. 78276)  
Vasiliki Karandrikas (I.D. No. 89711)  
Errin McCaulley (I.D. No. 325966)  
McNEES WALLACE & NURICK LLC  
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[emccaulley@mcneeslaw.com](mailto:emccaulley@mcneeslaw.com)

*Counsel to the UGI Industrial Intervenors*

Dated: August 16, 2019

**CERTIFICATE OF SERVICE**

**(Docket No. R-2019-3009647)**

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

**VIA E-MAIL & FIRST CLASS MAIL**

Lauren M. Burge, Esquire  
J.D. Moore, Esquire  
Office of Consumer Advocate  
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Forum Place, 5<sup>th</sup> Floor  
Harrisburg, PA 17101-1923

Scott B. Granger, Esquire  
Bureau of Investigation & Enforcement  
400 North Street, 2<sup>nd</sup> Floor West  
P.O. Box 3265  
Harrisburg, PA 17105


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

Pamela C. Polacek, Esquire  
Vasiliki Karandrikas, Esquire  
Errin McCaulley, Esquire  
McNees Wallace & Nurick LLC  
100 Pine Street  
P.O. Box 1166  
Harrisburg, PA 17108-1166  
*(Counsel to the UGI Industrial Intervenors)*

Robert D. Knecht  
Industrial Economics Inc.  
2067 Massachusetts Avenue  
Cambridge, MA 02140  
*(OSBA Consultant)*

Jerome Mierzwa  
Exeter Associates, Inc.  
10480 Little Patuxent Parkway  
Suite 300  
Columbia, MD 21044  
*(Expert Witness for OCA)*

Date: August 16, 2019

  
\_\_\_\_\_  
Jessica R. Rogers