

**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)	:	

RECOMMENDED DECISION

Before
Benjamin J. Myers
Administrative Law Judge

INTRODUCTION

This decision recommends approval and adoption of a full settlement of a natural gas distribution company’s annual purchased gas cost (PGC) tariff. The company has proposed, and the parties have agreed, to implement a unified PGC rate of \$5.2064/Mcf for the company’s entire service territory to become effective on December 1, 2019.

HISTORY OF THE PROCEEDING

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, UGI Utilities, Inc. – Gas Division (UGI or Company) initiated this annual proceeding to propose a unified PGC rate to become effective on December 1, 2019.¹

¹ UGI’s service territory encompasses three rate districts. Pursuant to a merger accomplished in Docket Nos. A-2018-3000381, A-2018-3000382 and A-2018-3000383, these rate districts were brought under a single entity, UGI Utilities, Inc. – Gas Division. This PGC filing for the first time brings all three rate districts under a unified PGC rate.

On May 1, 2019, UGI 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.

On May 9, 2019, the Office of Consumer Advocate (OCA) filed a notice of appearance, a formal complaint at Docket No. C-2019-3009778, and public statement in UGI's PGC proceeding.

On May 13, 2019, the Commission's Bureau of Investigation and Enforcement (I&E) filed a notice of appearance.

On May 20, 2019, the Office of Small Business Advocate (OSBA) filed a notice of appearance, a formal complaint at Docket No. C-2019-3010038, public statement and verification in this proceeding.

On May 31, 2019, UGI 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 also proposed to implement a unified PGC rate of \$5.2064/Mcf for its entire service territory.²

On June 10, 2019 a scheduling notice and prehearing conference order were issued scheduling a prehearing conference for June 21, 2019.

On June 19, 2019, UGI Industrial Intervenors (UGIII) filed a petition to intervene.

² 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.

The complaints filed by OCA at Docket No. C-2019-3009778 and by OSBA at Docket No. C-2019-3010038 were consolidated with the instant proceeding. On June 21, 2019, a prehearing conference was conducted during which UGIII's petition to intervene was granted without objection and the parties agreed to a procedural schedule and modifications to the rules of discovery.

On June 24, 2019, a scheduling order was issued which adopted the procedural schedule and modifications to the rules of discovery agreed to by the parties at the prehearing conference.

On June 28, 2019, UGI filed a motion for protective order which was subsequently granted by an order issued on July 1, 2019.

In accordance with the procedural schedule, OCA and I&E submitted direct testimony on July 2, 2019. On July 19, 2019, the Company submitted rebuttal testimony and on July 29, 2019, OCA and I&E submitted surrebuttal testimony.

The parties held settlement discussions which resulted in a settlement in principle being achieved prior to the July 31, 2019 evidentiary hearing date. On July 29, 2019, the parties requested that the procedural schedule be suspended and that the evidence be admitted by stipulation. As a result, the July 31, 2019 evidentiary hearing was cancelled. The parties requested that the testimony and exhibits be admitted into the record by joint stipulation with accompanying signed verifications of the sponsoring witnesses, filed concurrently with the proposed settlement.

On August 16, 2019 the parties submitted a joint petition for settlement of Section 1307(f) of rate investigation with attached statements in support or non-opposition to the proposed settlement and a joint stipulation for admission of evidence.

The joint stipulation for admission of evidence requests admission into the record of (subsections and paragraph numbers are listed as they appear in the original settlement filed with the Commission):

I. Testimony and Exhibits of UGI Gas

17. UGI Gas Exhibit 1: Book 1, filed on May 1, 2019, containing the information submitted pursuant to 52 Pa. Code §§ 53.64(c) and 53.65 of the Commission’s regulations and 66 Pa. C.S. 1317(c) in support of 66 Pa. C.S. § 1307(f) Purchased Gas Costs for 2019 for UGI Gas.

18. UGI Gas Exhibit 2: Book 2, filed on May 31, 2019, containing the computation of annual purchased gas cost filing submitted pursuant to 52 Pa. Code §§ 53.61, et. seq., of the Commission’s regulations and 66 Pa. C.S. § 1317(c) in support of 66 Pa. C.S. § 1307(f) Purchased Gas Costs for 2019 for UGI Gas. Book 2 includes the following direct testimony and exhibits:

- UGI Gas Statement No. 1 – Direct Testimony of Tracy A. Hazenstab.
- UGI Gas Statement No. 2 – Direct Testimony of Angelina M. Borelli, including UGI Gas Exhibits AMB-1 through AMB-7.
- UGI Gas Statement No. 3 – Direct Testimony of William J. McAllister, including UGI Gas Exhibit WJM-1.

19. UGI Gas Statement No. 4-S – Supplemental Direct Testimony of Megan Mattern, including UGI Gas Exhibit MM-1.

20. UGI Gas Statement No. 1-R – Rebuttal Testimony of Tracy A. Hazenstab.

21. UGI Gas Statement No. 2-R – Rebuttal Testimony of Angelina M. Borelli, including UGI Gas Exhibit AMB-1R.

22. UGI Gas Statement No. 3-R – Rebuttal Testimony of William J. McAllister, including UGI Gas Exhibit WJM-1R.

23. UGI Gas Statement No. 4-R – Rebuttal Testimony of Megan Mattern.

II. Testimony and Exhibits of I&E

24. I&E Statement No. 1 – Direct Testimony of Christopher Keller, including I&E Exhibit No. 1, and Appendix A.

25. I&E Statement No. 1-SR – Highly Confidential Surrebuttal Testimony of Christopher Keller, including Highly Confidential I&E Exhibit No. 1-SR.

III. Testimony and Exhibits of OCA

26. OCA Statement No. 1 – Direct Testimony of Jerome D. Mierzwa, including OCA Schedule JDM-1 and Schedule JDM-2, and a signed verification.

27. OCA Statement No. 1-R – Rebuttal Testimony of Jerome D. Mierzwa and a signed verification.

28. OCA Statement No. 1-S – Surrebuttal Testimony of Jerome D. Mierzwa and a signed verification.

29. Verifications for the testimony and exhibits of UGI Gas and I&E are attached hereto as **Appendices A and B**, respectively, whereas OCA’s verifications were attached to their preserved testimony.

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

The record in this matter closed on August 16, 2019, the date the parties filed the joint petition for settlement.

TERMS OF THE SETTLEMENT

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

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),³ 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 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 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 witness Tracy A. Hazenstab.

³ 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).

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) 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/UNDER-COLLECTIONS

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/under collection 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 2:⁴

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.

⁴ 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.

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);

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 a 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.

DISCUSSION

Legal Standard

It is the Commission's policy to encourage settlements, which are often preferable to the results of a fully litigated proceeding. 52 Pa.Code §§ 5.231, 69.401.

In order to approve a settlement, the Commission must determine that it is in the public interest. *Pa. Pub. Util. Comm'n v. The York Water Company*, Docket No. R-00049165 (Order entered October 4, 2004); *Pa. Pub. Util. Comm'n v. C S Water and Sewer Associates*, 74 Pa. PUC 767 (1991); *Pa. Pub. Util. Comm'n v. Philadelphia Electric Company*, 6 Pa. PUC 1, 22 (1985). After extensive discovery and negotiations, the parties have signed an agreement that fully resolves all outstanding issues in this proceeding.

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

Statutory Requirements

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

- (1) That the utility has fully and vigorously represented the interests of its ratepayers in proceedings before the Federal Energy Regulatory Commission (FERC);

(2) That the utility has taken all prudent steps necessary to negotiate favorable gas supply contracts and to relieve the utility from terms in existing contracts with its gas suppliers which are or may be adverse to the interest of the utility's ratepayers;

(3) That the utility has taken all prudent steps necessary to obtain lower cost gas supplies on both short-term and long-term bases both within and outside the Commonwealth, including the use of gas transportation arrangements with pipelines and other distribution companies; and,

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

66 Pa.C.S. § 1318(a).

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

(5) That the utility has fully and vigorously attempted to obtain less costly gas supplies on both short-term and long-term bases from non-affiliated interests;

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

(7) That neither the utility nor its affiliated interest has withheld from the market any gas supplies which should have been utilized as part of a least cost fuel procurement policy.

66 Pa.C.S. § 1318(b).

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

Section 3 of the Company's pre-filing information contains the Company's response to the Commission regulation at 52 Pa.Code § 53.64(c)(4), indicating that UGI is an

active local distribution company before the FERC in all relevant pipeline regulatory proceedings. Its participation is designed to minimize the purchased gas cost and/or improve the level or quality of service provided to UGI by its interstate pipeline suppliers. A listing of FERC proceedings is included in the pre-filing information at Section 3. UGI states:

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

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

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

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

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

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

procurement strategy, providing secure and reliable capacity and supplies and promoting price stability.

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

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

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

UGI reports as follows:

UGI Gas's fuel procurement practices are designed to meet the natural gas supply and capacity requirements of its core market customers, which include Purchase Gas Cost ("PGC") and Choice customers. The Company follows a least cost procurement strategy, which provides secure and reliable capacity and supplies and promotes price stability.

Pre-filing information, Section 5.

UGI Gas implements its least cost procurement strategy while balancing reliability and price stability by managing a portfolio of supplies from a diverse set of sources. During the 12-month historic period, April 2018 through March 2019, UGI Gas purchased its supplies, including those utilized for storage injection, from producers and marketers. The purchases for the South rate district were delivered via firm transportation on ANR, Columbia Gas, Dominion, Texas Eastern, and Transco, direct supply from UGI Energy Services ("UGIES"), or peaking facilities directly connected to the distribution system. The purchases for the North rate district were delivered via firm transportation on Columbia Gas, Columbia Gulf, Tennessee, and Transco, direct supply from UGIES, or peaking facilities and local production directly connected to the distribution system. The purchases for the Central rate district were delivered via firm transportation on ANR, Columbia Gas, Dominion, Texas Eastern, Transco, and UGI Storage Company, direct supply from UGIES and Supplier A or

peaking facilities and local production directly connected to the distribution system. Supplies not selected in 2018-2019 do not meet the criteria specified in the following two categories:

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

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

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

Pre-filing information, Section 2.

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

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

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

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

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

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

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

7. Whether the utility or its affiliated interest has withheld from the market any gas supplies which should have been utilized as part of a least cost fuel procurement policy. 6 Pa.C.S. § 1318(b)(3).

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

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

A. Unified PGC Rate

Prior to the 2019 PGC proceeding, UGI 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 a September 20, 2018 Commission opinion and order in the UGI merger proceeding (at Docket Nos. A-2018-3000381, A-2018-3000382 and A-2018-3000383), the three affiliated NGDCs were merged. The resulting entity was UGI Gas (UGI), 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 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 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 filed its definitive PGC filing (UGI Gas Exhibit 2), including supporting information required by the Commission's regulations, 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) UGI also proposed to implement a unified PGC rate for its entire service territory. UGI witness Tracy A. Hazenstab provided testimony and exhibits (in this proceeding) that supported either a unified PGC rate for the entire service territory, or separate PGC rates calculated individually by rate district. UGI also provided the chart below which summarizes the proposed rates by UGI in this proceeding by rate district.

Rate District	June 1, 2019 PGC	Dec 1, 2019 PGC	% Change	Unified Rate Dec 1, 2019	% Change over June 1 Rate
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’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 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 three rate district structure.

No party in this PGC proceeding has opposed the proposal to implement a unified PGC rate that would be effective December 1, 2019 and 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 recent merger proceeding,⁵ Paragraph 24 in the 2019 Base Rate Case Settlement, the proposal by UGI in its definitive PGC filing and as agreed upon by the parties in the Settlement, UGI will adopt a unified approach to calculating the PGC and a unified PGC rate of \$5.2064/Mcf applicable to the entire UGI service territory effective December 1, 2019. (Settlement ¶ 16).

The parties noted that 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, the parties have agreed 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 witness Tracy 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's December 1 PGC compliance filing. (Settlement Conclusion ¶ 3).

It is agreed that a unified PGC rate would provide several benefits to UGI as well as its customers. UGI will realize administrative efficiency while rates will be clear and straightforward for its customers. This provision also helps to align the outcome of this proceeding with the outcome of the previous merger settlement and the anticipated outcome of the 2019 base rate settlement. These settlement provisions are reasonable and in the public interest.

B. Peaking Contracts

UGI holds a portfolio of supply assets to meet the design-cold firm requirements of its core market customers. Included in the portfolio are a number of peaking service contracts. These services allow UGI to call on firm supplies for a specific number of days during the winter

⁵ 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.

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 may call upon these supplies, or November through March). (UGI Gas St. No. 2-R pp. 1-2).

As part of the comprehensive settlement in its 2018 PGC proceedings, UGI 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. UGI complied with this condition of the 2018 PGC settlement. (UGI Gas St. No. 2-R p. 2).

In this proceeding I&E presented the testimony of witness Christopher Keller that indicated UGI 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 this witness, UGI'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). He also indicated that a payment for peak winter usage coverage in November is unreasonable because it results in an under-collection which must eventually be recovered in the E-factor with attendant interest amount due from ratepayers. (I&E St. No. 1, p. 7). It was recommended that UGI remove the November payment going forward for new peaking service contracts. (I&E St. No. 1, p. 8).

UGI provided rebuttal testimony which argued that Mr. Keller's analysis failed to fully account for the cost impacts of changing the payment terms. According to that testimony, 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). In addition, 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). UGI argued that this would result 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.

Last, the testimony provided by UGI argued that 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, as a result of the testimony presented by I&E and UGI's recent experience with the 2019 RFP, it 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 parties have agreed that UGI will continue to use the modified RFPs from the 2018 PGC Settlement at Docket No. R-2018-3001633 on a prospective basis. (Settlement ¶ 18). The 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). RFP responses will be evaluated in a manner which is inclusive of projected PGC interest impacts with regard to fixed charges and UGI will make the RFP responses available in future PGC proceedings to the statutory parties. (Settlement ¶ 18).

These provisions will enable UGI to fully evaluate the pricing impact of excluding and including the November payment in peaking service contracts going forward and allow for the selection of the contract that provides the best terms for customers. These settlement provisions are reasonable and in the public interest.

C. Quarterly Adjustment Methodology

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

This analysis compared UGI's preferred quarterly adjustment methodology (QAM 1) with I&E's preferred methodology (QAM 2)⁶. It permits UGI to utilize quarterly C-Factor adjustments to recover actual experienced over/under-collections on an annual basis (over a sales volume defined by annual sales) and projected over/under-collections related to the

⁶ QAM 1 is the method previously approved in UGI's 2017 PGC settlement.

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 both the 2018 PGC case and this matter. That method permits UGI to utilize quarterly C-Factor adjustments to recover actual and projected over/under-collections, for incurred and remaining months of the PGC period so that over/under-collections 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 UGI's analysis, it concluded that QAM 1 produced less volatility between quarters and was therefore the preferred methodology.

Direct testimony presented by I&E witness Christopher Keller disputed this conclusion and recommended the use of QAM 2 to calculate quarterly PGC rate changes subject to the existing quarterly rate caps. (I&E St. No. 1, pp. 15-16). I&E argued that the use of QAM 1 would result in increased over/under-collections 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).

Witnesses for both UGI and OCA provided rebuttal testimony which 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 UGI's rebuttal testimony, Mr. McAllister reviewed the Commission's prior treatment of quarterly adjustment methods. (UGI Gas St. No. 3-R, pp. 3-4). He also addressed the issues of volatility and impacts on the E-factor. UGI'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 were applied. (UGI Gas St. No. 3-R, pp. 5-6). An analysis of historic PGC E-Factors for UGI going back to 2012 also showed that the highest E-Factors experienced were during a period where UGI 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 UGI's current approach and recommended that I&E's proposal not be adopted. (OCA St. No. 1-R, pp. 3-4).

The parties have agreed that UGI will conduct a three-year side by side analysis of its preferred method (QAM 1) and the remaining life method (QAM 2) as those methods are defined in the direct testimony of UGI 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 results of that study and a recommendation will be provided in the UGI PGC proceeding filed on June 1, 2023. (Settlement ¶ 19). While the study is being conducted, UGI 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).

This settlement will allow UGI to continue to use its current methodology through the 2023 PGC year while it conducts a detailed analysis of the impacts of the QAM 1 and QAM 2 methods for calculating quarterly changes. This will allow the parties to evaluate which of the two methodologies provides the greatest benefit to customers going forward as part of the 2023 PGC proceeding and provide UGI flexibility in calculating its quarterly rate changes as it transitions to unified rates. These settlement provisions are reasonable and in the public interest.

D. Interest on Over/Under-Collections

UGI has used the interest rate of 4.75% to calculate over/under-collections for the historic period (December 2018 through March 2019) based on 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). Interest is calculated on the over/under-collections 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/under-collections 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 the manner in which UGI calculated interest on its over/under-collections in past PGC years since the passage of Act 47 of 2016.⁷ (UGI Gas St. No. 1-R, p. 6).

In testimony presented by I&E, its witness disagreed with the use of a 4.75% interest rate to calculate the over/under-collection for December 2018 through March 2019. I&E proposed instead the use of a 5.50% interest rate for December 2018 through March 2019, *i.e.* the Historic Period, consistent with the interest rate used for April 2019 through November 2019, *i.e.* the Interim Period. (I&E St. No. 1, p. 17). I&E argued that the use of 5.50% was appropriate because it was the prime rate in effect 60 days before UGI's definitive PGC tariff filing made on May 31, 2019. (I&E St. No. 1, p. 18).

UGI's witness explained in rebuttal testimony that the 5.50% prime interest rate proposed by I&E 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 June 1st filing in 2018. (UGI Gas St. No. 1-R, p. 7). The 4.75% interest rate became effective on April 1, 2018 and therefore the 4.75% interest rate should apply to the over/under-collection amounts that occurred in the Historic Period (April 2018 – March 2019) as it 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 and therefore that interest rate should only apply to the over/under-collection amounts that occurred in the Interim Period (April 2019 – November 2019) as 5.50% was the effective prime interest rate for that period. (UGI Gas St. No. 1-R, p. 7). UGI further argued that adopting I&E's proposal would increase the interest paid by customers by \$83,173. (UGI Gas St. No. 1-R, p. 8).

The parties have agreed that beginning with the filing of its proposed tariff on or before June 1, 2020 in its next annual PGC filing UGI 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/under-collection balances for the PGC period December 1 of the prior year through November 30 of the PGC year. (Settlement ¶ 20). This provision addresses

⁷ 66 Pa. C.S. § 1307(f)(5) (as amended in 2016).

concerns raised regarding interest on over/under-collections moving forward and is reasonable and in the public interest.

E. PGC Correction

In 2018, UGI discovered a mathematical error in a PGC workpaper that resulted in an unreconciled over-collection for North Rate District customers and an under-collection for Central Rate District customers. The discrepancy occurred between PGC revenues documented in accounting records and reported in Schedule C (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 over-collection amount of \$6,545,504 for the impacted customers. (UGI Gas St. No. 4-S, p. 3). A similar discrepancy also 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 under-collection amount for November 2008 and related interest. This resulted in a net under-collection of \$1,557,049 for the impacted customers. (UGI Gas St. No. 4-S, p. 4). The uncontested principal net over-collection resulting from these errors was \$4,988,455. (UGI Gas St. No. 4-S, p. 5). Despite numerous opportunities, the discovery of the errors did not occur until 2018. (UGI Gas St. No. 4-S, p. 4). To address the accounting errors UGI first proposed the PGC correction in its 2019 Base Rate Case. 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.

There were two areas of dispute between the parties regarding the PGC correction: 1) the interest applicable to the refund and 2) the mechanism for refunding the net overcollection. UGI 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). This was proposed because the errors were initially missed by all parties in 2008. (UGI Gas St. No. 4-S, p. 5). If the errors had been discovered in the 2009 PGC where the parties would have reviewed projected figures from the 2008 case, the appropriate amounts could 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). UGI argued that under the Commission's regulations governing PGC proceedings, only one year of interest was appropriate. In addition UGI noted that it self-identified the errors after it and all the parties to PGC proceedings in 2008, as well as two audits performed by the Commission, failed to identify the errors. (UGI Gas St. No. 4-R, p. 6). UGI therefore 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's witness recommended the equivalent of two years of interest to be added to the principal for a total of \$5,852,167 because "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). I&E applied a simple interest rate of 8% to UGI's proposed total correction amount which resulted in a recommended total correction amount of \$5,852,167. (I&E St. No. 1, p. 21). I&E 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's witness Mr. Mierzwa disagreed with both approaches. OCA 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. OCA's proposed an overall PGC credit of \$9,506,926, inclusive of \$4,518,471 in interest. (OCA St. No. 1, p. 6). OCA also recommended that the refund be given exclusively to North Rate District customers as they were the customers who had contributed to the overcollection. (OCA St. No. 1, p. 6).

The parties have agreed that UGI 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/under-collection. (Settlement ¶ 21). The parties believe that this reflects a significant compromise by all parties in order to reach a fair resolution that

meets UGI's regulatory accounting needs and provides a direct benefit to customers in the form of a lower PGC rate than would otherwise be applied.

This resolution strikes the appropriate balance given when these errors occurred, how they were overlooked by all parties and were subsequently self-reported by UGI immediately upon discovery. At the same time, and in recognition of those factors, the resolution does not punish UGI for self-reporting its errors promptly when they were identified and produces just and equitable results as the amount at issue will result in a refund to or a recovery from ratepayers. (UGI Gas St. No. 4-R, p. 7). This settlement provision constitutes a reasonable compromise that addresses various concerns raised by these errors and is therefore in the public interest.

Statements in Support/Non-Opposition

OSBA, OCA and UGIII each filed letters of non-opposition to the settlement on August 16, 2019. OSBA indicated that it had identified four issues which it sought to have addressed in this proceeding, including: (1) whether the Company's actual and forecast load and unaccounted-for gas ("UFG") rates are reasonable; (2) 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; (3) whether the Company's design day demand forecasting and peak day capacity requirements are reasonable; and (4) whether the Company's unification of natural gas rates shall be performed in a just and reasonable manner.

OSBA indicated that these issues had all been satisfactorily addressed in the settlement and that the complaint it had filed in this matter had been satisfied.

In its statement in support, UGI indicates that the settlement reached by the parties is in the best interest of the company, its customers and all of the parties to this matter and it is therefore in the public interest and should be approved. It was achieved after a comprehensive investigation of UGI's gas procurement practices and numerous formal discovery

requests. The parties also filed multiple rounds of testimony, including the direct and supplemental direct testimony of UGI, the direct testimony of OCA and I&E, the rebuttal testimony of UGI and OCA and the surrebuttal testimony of OCA and I&E. The parties participated in constructive settlement negotiations which ultimately proved successful and led to the settlement of all issues in this matter. UGI feels that the settlement reflects a carefully balanced compromise of the interests of all the parties to this proceeding, is just and reasonable and should be approved.

In its statement of support, I&E acknowledged that the settlement which has been reached was the result of compromise on the behalf of all the parties. I&E also indicated that there were specific areas as outlined above where it did not initially agree with UGI or other parties on how to resolve certain concerns. However, I&E was satisfied its concerns had been addressed and supported the settlement which had been reached. In particular, I&E acknowledged that UGI had self-reported the error that had occurred in the 2008-2009 PGC proceeding and applauded UGI's proposal to make its customers essentially whole. I&E asserted that all issues raised in testimony had been satisfactorily resolved and 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.

Both UGI and I&E noted that the settlement in this matter will reduce the amount of expense and effort 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. Both also note that the settlement is the result of compromise and each of the terms set forth in the settlement resolves a dispute fairly and without the expense and uncertainty associated with litigation. UGI and I&E fully support the settlement, with the remaining parties being in non-opposition, and request that the Commission approve the Settlement without modification.

Conclusion

For all the reasons set forth above, it is concluded that the proposed rates under the stipulation are just and reasonable because the utility is pursuing a least cost fuel procurement policy, consistent with the utility's obligation to provide safe, adequate and reliable service to its customers. Therefore, this decision recommends that the Commission approve the joint petition for settlement of Section 1307(f) Rate Investigation because it is in the public interest.

CONCLUSIONS OF LAW

1. The Commission has jurisdiction over the parties to and subject matter of this proceeding. 66 Pa.C.S. §§ 1307(f), 1317-18 and 501 *et seq.*
2. UGI Utilities, Inc. – Gas Division has met the requirements of Section 1318 of the Public Utility Code by pursuing a least cost fuel procurement policy, consistent with its obligations to provide safe, adequate and reliable service to their customers. 66 Pa.C.S. § 1318.
3. UGI Utilities, Inc. – Gas Division's rates for purchased gas costs, as the parties have agreed upon in this proceeding, during the relevant time period are just and reasonable and in compliance with 66 Pa.C.S. § 1318.
4. UGI Utilities, Inc. – Gas Division has fully and vigorously represented the interests of its ratepayers in proceedings before the Federal Energy Regulatory Commission and other relevant non-PUC proceedings during the relevant time period in compliance with 66 Pa.C.S. § 1318(a)(1).
5. UGI Utilities, Inc. – Gas Division has taken all prudent steps necessary to negotiate favorable gas supply contracts and to relieve the utility from terms in existing contracts with their gas suppliers which are or may be adverse to the interests of the utility's ratepayers in compliance with 66 Pa.C.S. § 1318(a)(2).

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

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

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

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

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

11. The stipulation in settlement of Section 1307(f) rate investigation is in the public interest.

ORDER

THEREFORE,

IT IS RECOMMENDED:

1. That the complaints filed by the Office of Consumer Advocate at Docket No. C-2019-3009778 and by the Office of Small Business Advocate at Docket No. C-2019-3010038 be consolidated with the instant proceeding at Docket No. R-2019-3009647.

2. That the following documents be admitted into the record as set forth in the stipulation for admission of evidence filed August 16, 2019 (subsections and paragraph numbers are listed as they appear in the original settlement filed with the Commission):

A. Testimony and Exhibits of UGI Gas

i. UGI Gas Exhibit 1: Book 1, filed on May 1, 2019, containing the information submitted pursuant to 52 Pa. Code §§ 53.64(c) and 53.65 of the Commission's regulations and 66 Pa. C.S. 1317(c) in support of 66 Pa. C.S. § 1307(f) Purchased Gas Costs for 2019 for UGI Gas.

ii. UGI Gas Exhibit 2: Book 2, filed on May 31, 2019, containing the computation of annual purchased gas cost filing submitted pursuant to 52 Pa. Code §§ 53.61, et. seq., of the Commission's regulations and 66 Pa. C.S. § 1317(c) in support of 66 Pa. C.S. § 1307(f) Purchased Gas Costs for 2019 for UGI Gas. Book 2 includes the following direct testimony and exhibits:

a. UGI Gas Statement No. 1 – Direct Testimony of Tracy A. Hazenstab.

b. UGI Gas Statement No. 2 – Direct Testimony of Angelina M. Borelli, including UGI Gas Exhibits AMB-1 through AMB-7.

c. UGI Gas Statement No. 3 – Direct Testimony of William J. McAllister, including UGI Gas Exhibit WJM-1.

iii. UGI Gas Statement No. 4-S – Supplemental Direct Testimony of Megan Mattern, including UGI Gas Exhibit MM-1.

iv. UGI Gas Statement No. 1-R – Rebuttal Testimony of Tracy A. Hazenstab.

v. UGI Gas Statement No. 2-R – Rebuttal Testimony of Angelina M. Borelli, including UGI Gas Exhibit AMB-1R.

vi. UGI Gas Statement No. 3-R – Rebuttal Testimony of William J. McAllister, including UGI Gas Exhibit WJM-1R.

vii. UGI Gas Statement No. 4-R – Rebuttal Testimony of Megan Mattern.

B. Testimony and Exhibits of I&E

i. I&E Statement No. 1 – Direct Testimony of Christopher Keller, including I&E Exhibit No. 1, and Appendix A.

ii. I&E Statement No. 1-SR – Highly Confidential Surrebuttal Testimony of Christopher Keller, including Highly Confidential I&E Exhibit No. 1-SR.

C. Testimony and Exhibits of OCA

i. OCA Statement No. 1 – Direct Testimony of Jerome D. Mierzwa, including OCA Schedule JDM-1 and Schedule JDM-2, and a signed verification.

ii. OCA Statement No. 1-R – Rebuttal Testimony of Jerome D. Mierzwa and a signed verification.

iii. OCA Statement No. 1-S – Surrebuttal Testimony of Jerome D. Mierzwa and a signed verification.

3. That the settlement between UGI Utilities, Inc. – Gas Division and the Pennsylvania Public Utility Commission’s Bureau of Investigation and Enforcement in the above-captioned case, filed at Docket Nos. R-2019-3009647, C-2019-3009778, and C-2019-3010038, which is not opposed by the Office of Consumer Advocate, Office of Small Business Advocate or the UGI Industrial Intervenors, be approved without modification.

4. That on not less than one day’s notice of the final Commission order approving the settlement, UGI Utilities, Inc. – Gas Division shall file tariff supplements implementing rates consistent with the proposed rates contained in the settlement, as modified to reflect updates and tariff modifications traditionally performed as part of UGI Utilities, Inc. – Gas Division 's December 1st PGC compliance filings, to become effective on and after December 1, 2019.

5. That, upon the filing of the tariff supplements described in Paragraph 3, above, the complaint filed by the Office of Small Business Advocate in these proceedings at Docket No. C-2019-3010038 be marked satisfied and closed.

