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File #: 180578

August 26, 2020

VIA ELECTRONIC FILING

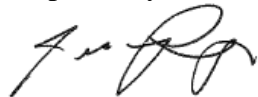
Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

**Re: Pennsylvania Public Utility Commission, Office of Consumer Advocate, and Office
of Small Business Advocate v. UGI Utilities, Inc. - Gas Division
Docket Nos. R-2020-3019680, C-2020-3020087, C-2020-3020317**

Dear Secretary Chiavetta:

Enclosed for filing 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.

Respectfully submitted,



Jessica R. Rogers

JRR/jl
Enclosures

cc: Honorable Benjamin J. Myers

Certificate of Service

CERTIFICATE OF SERVICE

(Docket No. R-2020-3019680)

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

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Date: August 26, 2020



Jessica R. Rogers

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission,	:	Docket Nos. R-2020-3019680
Office of Consumer Advocate, and	:	C-2020-3020087
Office of Small Business Advocate	:	C-2020-3020317
	:	
v.	:	
	:	
UGI Utilities, Inc. – Gas Division	:	

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

TO ADMINISTRATIVE LAW JUDGE BENJAMIN J. MYERS:

UGI Utilities, Inc. - Gas Division (“UGI Gas” or the “Company”), the Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), the Office of Consumer Advocate (“OCA”), and the Office of Small Business Advocate (“OSBA”) (hereinafter collectively referred to as the “Joint Petitioners”), hereby join in this *Joint Petition For Settlement Of Section 1307(f) Rate Investigation* (“Settlement”) in the above-captioned proceeding.

The Joint Petitioners request that Administrative Law Judge Benjamin J. Myers (“ALJ Myers” or 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, 2020, that implements, subject to updates and tariff modifications traditionally performed on December 1, the Purchased Gas Cost (“PGC”) rate of \$4.3450/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 through D**.

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 Commission’s gas cost recovery regulations at 52 Pa. Code §§ 53.61-53.69, the Company initiated this annual proceeding to propose a PGC rate to become effective on December 1, 2020.

2. On May 1, 2020, 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 29, 2020, the OCA filed a Notice of Appearance, Formal Complaint, and Public Statement in the Company’s PGC proceeding.

4. On June 1, 2020, 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.

5. Also on June 1, 2020, I&E filed a Notice of Appearance.

6. On June 9, 2020, the OSBA filed a Notice of Appearance, Formal Complaint, Public Statement, and Verification in this proceeding.

7. On June 10, 2020, ALJ Myers held a prehearing conference and issued a Scheduling Order that adopted the procedural schedule proposed by the Joint Petitioners.

8. On June 17, 2020, a Motion for Protective Order was filed by the Company, which was granted by ALJ Order issued on June 18, 2020.

9. In accordance with the procedural schedule, OCA and I&E submitted written direct testimony and exhibits on July 8, 2020. On July 28, 2020, the Company submitted written rebuttal testimony and exhibits responding to the direct testimony of OCA and I&E.

10. On August 5, 2020, I&E submitted written surrebuttal testimony.

11. The Joint Petitioners held settlement discussions in this proceeding. As a result of these discussions and the efforts of the Joint Petitioners to examine the issues raised in this proceeding, a settlement in principle was achieved prior to the date for evidentiary hearings. On August 4, 2020, 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.

12. As a result of the settlement in principle, the August 6, 2020 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.

II. TERMS OF SETTLEMENT

A. CAPACITY RESERVE

13. Given the increased frequency of pipeline incidents and the significant risk associated with such incidents, the Joint Petitioners agree that UGI Gas will be permitted to increase its capacity reserves for its PGC and Retail Choice customer markets from 2.5% to 5%, in advance of the upcoming winter (2020-2021). These increased reserves will provide the Company with additional flexibility to ensure the safe and reliable delivery of natural gas supplies to its customers. The Joint Petitioners reserve their right to challenge prospective acquisitions or renewals of capacity reserves in a future PGC proceeding.

B. WEIGHTED AVERAGE COST OF DEMAND (“WACOD”) MODIFICATIONS

14. The Joint Petitioners agree that UGI Gas will modify its WACOD calculation so that Retail Choice customers bear a proportionate share of the capacity reserve margin costs. The Company will include the full 5% capacity reserve in the WACOD calculation for Choice transportation customers and their suppliers and collect their share of the capacity costs through the WACOD charged to those Retail Choice suppliers effective December 1, 2020.

C. DESIGN DAY

15. The Joint Petitioners agree that UGI Gas will be permitted to use a design day figure of 2.02 BCF, which includes 1.137 BCF of design cold firm requirements and 0.054 BCF of capacity reserves for the Company’s firm core market needs (PGC and Choice Customer markets).

D. AWARD OF APRIL 2020 REQUEST FOR PROPOSAL (“RFP”)

16. The Joint Petitioners agree that, consistent with the Company’s primary firm requirements and least-cost fuel procurement obligations, UGI Gas will acquire 3,813 dth of capacity from Tennessee Gas Pipeline and accept the offer from UGI Energy Services, LLC that provides 38,469 dth of capacity and consolidates the new service with the Company’s three existing agreements PNG-CO-1006, PNG-CO-1007, and PNG-CO-1009 (referenced at pages 31 to 35 of UGI Statement No. 2, the Direct Testimony of Angelina M. Borelli).

E. PEAKING CONTRACT RFP MODIFICATIONS

17. The Joint Petitioners agree that the Company will continue to use the RFP format agreed to in the 2019 PGC Settlement at Docket No. R-2019-3009647 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 over/under collection and PGC interest impacts with regard to fixed charges in live Excel format. UGI Gas will make the RFP responses available in future PGC proceedings to the statutory parties.

III. STANDARDS AND FINDINGS

18. 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, 2020. The proposed rates are intended to become effective December 1, 2020.

A. HISTORIC RECONCILIATION PERIOD STANDARDS

19. With respect to UGI Gas's gas purchases and gas purchasing practices during the 12-month historic reconciliation period ending March 31, 2020, the Joint Petitioners 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, the Joint Petitioners request that the Commission find, pursuant to Section 1307(f)(5) of the Public Utility Code, and based upon the evidence presented by the Joint Petitioners in this case, that during the 12-month period ended March 31, 2020, 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 2:¹

- 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 1, 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 2020 PGC Rates:
 - i) June 1, 2020, Filing, Schedule A – Computation of Purchased Gas Cost Rate effective December 1, 2020;
 - ii) June 1, 2020, Filing, Schedule B (page 1) – Development of Projected Cost of Gas (C-factor);

¹ 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) June 1, 2020, Filing, Schedule B (pages 2-13) – Projected Supply Volumes, Rates, Costs April 2020 through November 2021;
- iv) June 1, 2020, Filing, Schedule C – Development of Experienced Cost of Gas (E-factor);
- v) June 1, 2020, Filing, UGI Statement No. 1, Written Direct Testimony of Tracy A. Hazenstab, Principal Analyst – Rates.
- h) Reliability (66 Pa. C.S. §1317(c)): Prefiling, Section 14, and June 1, 2020, Filing, UGI Statement No. 2, Written Direct Testimony of Angelina M. Borelli, Director – Energy Supply and Planning.

B. PROJECTED PERIOD FINDINGS

20. With respect to the 12-month period beginning December 1, 2020, the period of time during which the proposed rates would be in effect, the Joint Petitioners 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, 2020, 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, 2020 through November 30, 2020 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.

21. If in an appropriate future proceeding, gas purchases and gas purchasing practices relating to the period December 1, 2020 through November 30, 2021 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, 2020, except as provided in Section II above.

22. The Joint Petitioners also agree that future examination of the gas costs relating to the period April 1, 2020 through November 30, 2020, 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

23. 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, 2020, the terms and conditions of this Settlement, then any of the Joint Petitioners 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 Joint Petitioners within five (5) business days after the entry of an order modifying or disapproving the Settlement.

24. 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 Joint Petitioners

reserve their respective rights to present additional testimony and to conduct full cross-examination, briefing and argument on these subjects.

25. If the ALJ approves this Settlement without modification, the Joint Petitioners waive their rights to file exceptions.

26. Except as otherwise specifically provided in this Settlement, this Settlement is proposed by the Joint Petitioners 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.

27. It is understood and agreed among the Joint Petitioners that this Settlement is the result of compromises by all Joint Petitioners 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.

28. 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 Joint Petitioners may have advanced and without prejudice to the positions that any of the Joint Petitioners may advance in the future on the merits of the issues.

29. The Joint Petitioners acknowledge and agree that this Settlement shall have the same force and effect as if the Joint Petitioners had fully litigated this proceeding with regard to the historic period ended March 31, 2020.

30. This Settlement may be executed in counterparts.

V. CONCLUSION

WHEREFORE, the Joint Petitioners, 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 specifically approve the terms identified in Section II of the Settlement as just and reasonable, in the public interest, and consistent with UGI Gas's least cost gas purchase obligations;

3. 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;

4. That the Commission enter a Final Order, consistent with this Settlement: (a) approving the proposed rates effective December 1, 2020, 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, 2020; and

5. That the Commission mark closed its inquiry and investigation at Docket Nos. R-2020-3019680, C-2020-3020087, and C-2020-3020317.

Respectfully submitted,

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8/26/2020

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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-2020-3019680
	:	C-2020-3020087
v.	:	C-2020-3020317
	:	
UGI Utilities, Inc. – Gas Division	:	

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

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, the Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), the Office of Consumer Advocate (“OCA”), and the Office of Small Business Advocate (“OSBA”) (hereinafter collectively referred to as the “Joint Petitioners”). 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 testimony of UGI Gas, the direct testimony of OCA and I&E, the rebuttal testimony of UGI Gas, and the surrebuttal

testimony of 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. CAPACITY RESERVE

Capacity reserves are a necessary part of UGI Gas’s reliability plans for providing continuous, safe and reliable service as required under the Public Utility Code. In order to fulfill its firm peak day requirements, UGI Gas acquires sufficient gas supply to meet demand, and sufficient pipeline capacity to deliver gas to its customers. (UGI Gas St. 2-R, p. 6). In addition, UGI Gas has contingency plans to address service disruptions (*e.g.*, force majeure curtailment events), which depend, in part, on a sufficient amount of reserved capacity that can be called upon as needed. (UGI Gas St. 2-R, p. 6). An inability to deliver firm supply during a force majeure event could lead the Company to implement its Gas Emergency Planning process (Rule 21 to UGI Gas Tariff – Pa. P.U.C. No 7) and curtail customer usage. (UGI Gas St. 2-R, p. 6). This is a result that should be avoided and mitigated, to the greatest extent possible, by reserved capacity.

In recent years, the Company has seen an increase in the frequency of force majeure incidents on the pipelines supplying the Company’s service territory. (UGI Gas St. 2-R, p. 7). Transcontinental Gas Pipe Line Company, LLC (“Transco”), Texas Eastern Transmission, L.P. (“Texas Eastern”), Tennessee Gas Pipeline, L.L.C (“Tennessee”), and Columbia Pipeline Group, Inc. (“Columbia”), all issued Operational Flow Orders during the winter period between November 2019 through March 2020. These flow orders lasted a total of 146 days on Transco, 70 days on Texas Eastern and 12 days on both Tennessee and Columbia. (UGI Gas St. 2, p. 10). As

noted in the Company's direct case, some of these limitations are ongoing and have extended beyond the winter season. (UGI Gas St. 2, p. 10). Columbia also issued several critical day notices during the 2019-2020 winter, which limited the Company's operational flexibility. (UGI Gas St. 2, p. 10). During each of the last four years, UGI Gas experienced force majeure events with the potential to curtail primary firm capacity from 13,000 dth to 72,000 dth per day. (UGI Gas St. 2-R, p. 7). UGI Gas was able to continue providing service to its customers during these events by scheduling sufficient deliveries to its city gates through contracts for sufficient primary firm capacity and capacity reserves on each pipeline to meet the peak day demand requirements of its Core Market customers. (UGI Gas St. 2, p. 10). With the Company's current capacity and reserves, a significant disruption on an interstate pipeline during winter conditions would likely require UGI Gas to curtail service. However, to continue meeting its delivery obligations in the face of increasing force majeure events on interstate pipelines, UGI Gas proposed in its direct case to increase its capacity reserve margin from 2.5% to 5%. (UGI Gas St. 2, p. 10).

The OCA's witness, Mr. Mierzwa, challenged the Company's proposal to increase its capacity reserve margin from 2.5% to 5% in his direct testimony. (OCA Statement No 1). Mr. Mierzwa opined that additional capacity was not needed to meet UGI Gas's obligations to provide safe and reliable service during force majeure events and/or peak conditions (OCA St. 1, pp 8-9). Mr. Mierzwa compared UGI Gas to PECO Energy Company ("PECO") and Philadelphia Gas Works ("PGW"). He noted that PECO and PGW were "similarly situated" and "in close proximity to UGI and are both primarily served by Texas Eastern and Transco." (OCA St. 1, pp. 8-9).

In its rebuttal testimony, UGI Gas explained that force majeure events can limit the amount of operational capacity available for pipelines to make natural gas supply deliveries. Specifically, pipelines rank nominations according to priority, with the lowest priority being assigned to

interruptible nominations, followed by secondary, and lastly primary firm deliveries. (UGI Gas St. 2-R, p. 8). When a pipeline has insufficient capacity to facilitate all nominated volumes, the pipeline will reduce nominations from lowest priority to highest. (UGI Gas St. 2-R, p. 8). After all interruptible and secondary nominations are reduced to zero, and where the pipeline is still oversubscribed based on the reduced operating capacity, the pipeline will then make reductions to primary firm capacity on a pro-rata basis. (UGI Gas St. 2-R, p. 8). Capacity reserves enable UGI Gas to receive a larger allocation of the operationally available capacity on a pipeline during a force majeure event, which limits the Company's risk of a financial penalty (for deliveries consumed in excess of scheduled quantities) and in severe instances avoids physical curtailment of service to customers. (UGI Gas St. 2-R, p. 8). Having a larger amount of primary firm capacity during a force majeure event will significantly enhance the Company's ability to serve discrete and constrained portions of the distribution system that lack redundancy. (UGI Gas St. 2-R, p. 8). The large geographic footprint of UGI Gas, the lack of interconnections and redundancy, and the significant impacts of recent force majeure events on the Company all distinguish UGI Gas from PGW and PECO. (UGI Gas St. 2-R, p. 14).

In its rebuttal testimony, UGI Gas also disclosed that during the pendency of this proceeding, it received notice of another force majeure event that will impact capacity on the Texas Eastern interstate pipeline. This restriction will be more severe with the potential for a higher-level of reductions to primary firm capacity than prior events. (UGI Gas St. 2-R, p. 7). In conjunction with this latest force majeure event, the Company noted that capacity providing access to supply sources for UGI Gas (beyond the reserve sought in this proceeding) is not currently available without the construction of an expansion project. (UGI Gas St. 2-R, p. 7). A winter-occurring force majeure event would not provide UGI Gas with the time needed to go out into the

market and obtain capacity and flow gas to meet ongoing demand. (UGI Gas St. 2-R, p. 11). Further, the Company operates in various capacity constrained areas where there are few supply/delivery options available in the market. (UGI Gas St. 2-R, p. 11). The Company has seen this to be the case as it typically has few respondents to its Request for Proposals (“RFPs”), and has acquired much of the capacity that was made available in prior bid responses. (UGI Gas St. 2-R, p. 12). Accordingly, a winter-occurring force majeure event would make it even more difficult to obtain capacity on an urgent basis, as the Company would be competing with other shippers for little, if any, available amounts of capacity, and the cost would likely be higher under emergency circumstances. (UGI Gas St. 2-R, p. 12).

To address this issue, the parties have agreed that, due to the increased frequency of pipeline incidents and the significant risk associated with such incidents, UGI Gas will be permitted to increase its capacity reserves for its PGC and Retail Choice customer markets from 2.5% to 5%, in advance of the upcoming winter (2020-2021). This will provide the Company with additional flexibility to provide safe and reliable delivery of natural gas supplies to its customers. (Settlement ¶ 13). The Joint Petitioners, however, have reserved their right to challenge prospective acquisitions or renewals of capacity reserves in a future PGC proceeding. (Settlement ¶ 13).

This Settlement term is in this public interest because the ability of UGI Gas to provide service to its firm service customers on a peak day is paramount. UGI Gas has an obligation to provide safe and reliable service pursuant to Section 1501 of the Public Utility Code. It is this obligation that is driving the Company’s need for additional capacity. Without the additional capacity, there is a very real chance that the Company could not meet its service obligations during the winter if a contingency event(s) occurred. (UGI Gas St. 2-R, p. 16). Increasing the capacity

reserve margin, as reflected in the Settlement, will help UGI Gas to meet its obligation under Section 1501 in the face of the increasing threat of interstate pipeline force majeure events.

B. WEIGHTED AVERAGE COST OF DEMAND (“WACOD”) MODIFICATIONS

In OCA’s direct testimony, Mr. Mierzwa argued that UGI Gas’s WACOD should be adjusted to reflect the capacity reserve margin, whether it is at 2.5 percent or 5 percent, so that firm transportation customers are responsible for a proportionate share of the incremental costs associated with the capacity reserve margin. (OCA St. 1, pp 9-11). In the Company’s rebuttal, UGI Gas noted that the increased capacity reserves would not result in a significant impact to customer bills, at an estimated additional cost of \$0.47 per customer bill per month. (UGI Gas St. 2-R, p. 15). As a result, the Company considered the additional reserves to have a low-cost impact for customers, while providing significant reliability benefits, particularly in light of the increasing number of force majeure events. (UGI Gas St. 2-R, p. 15).

To resolve the OCA’s cost allocation concern, and in light of the agreement described previously to expand UGI Gas’s capacity reserve margin, the parties have agreed that UGI Gas will modify its WACOD calculation so that Retail Choice customers bear a proportionate share of the capacity reserve margin costs. The Company will include the full 5% capacity reserve in the WACOD calculation for Choice transportation customers and their suppliers and collect their share of the capacity costs through the WACOD charged to those Retail Choice suppliers. (Settlement ¶ 14). This Settlement term is in this public interest because Retail Choice customers may be served using the additional capacity secured through the increased capacity reserve margin. Therefore, it is appropriate for them to contribute to the cost of obtaining the additional capacity.

C. DESIGN DAY

In the Company's direct testimony, and taking into account the proposal to increase the capacity reserve margin, UGI Gas identified that it projected a firm peak-day demand and reserve requirement of 2.02 BCF. (UGI Gas St. 2, p. 17). This peak-day demand reflected 1.97 BCF of design-cold firm requirements and 0.05 BCF of capacity reserve requirements. (UGI Gas St. 2, p. 17). The Company's methodology for developing the firm peak-day demand, and its associated capacity needs, is fully described in UGI Gas St. 2, pages 17 through 19.

In light of the Settlement terms previously discussed adopting the Company's proposal to increase the capacity reserve margin to 5%, the Joint Petitioners have agreed that UGI Gas will be permitted to use a design day figure of 2.02 BCF, which includes 1.137 BCF of design cold firm requirements and 0.054 BCF of capacity reserves for the Company's firm core market needs (PGC and Choice Customer markets). (Settlement ¶ 15). This Settlement term is necessary to quantify the impact of the proposal to increase the Company's capacity reserve margin by 2.5%. This increase is in the public interest because it provides the Company with additional capacity to respond to customer needs on peak winter days and in the face of force majeure events.

D. AWARD OF APRIL 2020 RFP

As part of its direct case, UGI Gas anticipated a 44,816 dth shortfall in its peak-day capacity for the winter of 2020-2021. To address this shortfall, the Company issued an RFP seeking delivered service into UGI Gas that would provide it with the option to call upon the service from zero up to the maximum daily quantity of: a) 41,633 dth per day on Transco;¹ and b) up to 3,813 dth per day on Tennessee. (UGI Gas St. 2, p. 31). On April 30, 2020, the Company issued the RFP, and received responses from two suppliers on each of the two interstate pipelines.

¹ During the settlement discussions, UGI Gas discovered that the 41,633 dth included an error in the calculation of the necessary capacity. As a result, the Settlement includes the corrected total of 38,469 dth.

(UGI Gas St. 2, p. 33). For Transco, UGI Gas received a bid from UGI Energy Services, LLC (“UGIES”) that met all of the criteria for the bid, and consolidated three of the Company’s existing service agreements with UGIES at an overall significantly reduced price. The details of this proposal are fully described in UGI Gas St. 2, pages 33 through 36. For the responses UGI Gas received from Tennessee, one of the two responses did not provide a primary firm delivery point, and the other was offered at a higher price than capacity that was otherwise directly available from Tennessee. (UGI Gas St. 2, p. 33).

Based on the results of the RFP, the parties agree that UGI Gas will acquire 3,813 dth of capacity from Tennessee Gas Pipeline, and will accept the offer from UGIES that provides 38,469 dth of capacity and consolidates the new service with the Company’s three existing UGIES agreements. (Settlement ¶ 16). The Joint Petitioners agree that this is consistent with the Company’s primary firm requirements and least-cost fuel procurement obligations. (Settlement ¶ 16). Therefore, this provision of the Settlement is in the public interest and should be approved.

E. 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 p. 2). In UGI Gas’s 2018 and 2019 PGC proceedings, and as part of comprehensive settlements, the Company agreed to modify its peaking service RFPs to request payment terms of: 1) November through March; and 2) December through March. The Company complied with this condition. (UGI Gas St. No. 2-R pp. 2-3).

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, p. 7). Mr. Keller argued that a payment for peak winter usage coverage in November is not appropriate because it results in an undercollection, which must eventually be recovered in the E-factor with associated interest due from ratepayers. (I&E St. No. 1, p. 7). Therefore, Mr. Keller recommended removing the November payment for peaking service contracts. (I&E St. No. 1, p. 7).

In light of Mr. Keller's testimony and the Company's recent experience with the 2019 RFP,² the Company supports using the same peaking RFP process that was agreed upon in the 2018 and 2019 PGC settlements for any RFPs the Company may issue on a prospective basis. (UGI Gas St. No. 2-R, p. 4). The Settlement provides that the Company will continue to use the RFP format agreed to in the 2019 PGC Settlement at Docket No. R-2019-3009647 on a prospective basis. (Settlement ¶ 17). 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. (Settlement ¶ 17). The Company will evaluate RFP responses in a manner, which is inclusive of projected PGC over/under collection and PGC interest impacts with regard to fixed charges in live Excel format. (Settlement ¶ 17). UGI Gas will make the RFP responses available in future PGC proceedings to the statutory parties. (Settlement ¶ 17).

The Settlement 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

² 2019 was the first year that UGI Gas received any responses that included 4-month terms. However, UGI Gas did not select the RFP with the 4-month term, because it was not the least cost option. (UGI Gas St. 2-R, p. 4).

allow UGI Gas to select the contract that provides the best terms for customers. Specifically, as 2019 was the first year where the Company received a bid that included a four-month term, it is important to continue to request bids for both the four-month period and the five-month period in pursuit of least cost procurement opportunities. (UGI Gas St. No. 2-R, p. 4). If the Company were to only request four-month payment options, the Company would be unable to properly evaluate any cost differences, or price premiums that bidders may include in their proposals (due to delaying payment for services provided in November, with payments for those service only beginning in December). (UGI Gas St. No. 2-R, pp. 4-5). In this way, the methodology reflected in the Settlement will provide the Company with the most comprehensive information and options so that the Company may select the least cost option consistent with its obligations under the Public Utility Code. Thus, this settlement provision is reasonable, in the public interest and, should be approved.

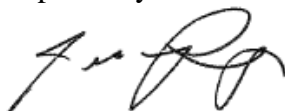
II. CONCLUSION

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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Attorneys for UGI Utilities, Inc. – Gas Division

Date: August 26, 2020

Appendix B

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	Docket Nos. R-2020-3019680
Office of Consumer Advocate	:	C-2020-3020087
Office of Small Business Advocate	:	C-2020-3020317
	:	
v.	:	
	:	
UGI Utilities, Inc. - Gas Division 1307(f)	:	

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

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”) (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 2020 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. On May 1, 2020, pursuant to 52 Pa. Code Sections 53.64 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.

3. On May 29, 2020 the OCA filed a Notice of Appearance, a Formal Complaint, and a Public Statements in this PGC proceeding.

4. On June 1, 2020, pursuant to 52 Pa. Code Section 53.64(a), UGI Gas submitted its definitive PGC filing ("Book 2") to the Commission, which included UGI's

proposed *Pro Forma* Tariff Addendums to become effective for service rendered on and after December 1, 2020, and the supporting written direct testimony of its witnesses.

5. On June 1, 2020 I&E filed its Notice of Appearance in this PGC proceeding.

6. On June 9, 2020 the OSBA filed a Notice of Appearance, a Complaint and a Public Statement in this PGC proceeding.

7. On June 10, 2020 ALJ Myers presided over a telephonic prehearing conference, 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.

8. 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.

9. 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; and, peak service contract payment schedule:

I&E witness Christopher Keller submitted:

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

10. 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.

11. The hearing which was scheduled for August 6, 2020 was cancelled and the Parties agreed to waive cross examination for all witnesses and submit the written testimony into the record by Joint Stipulation with accompanying signed verifications of the sponsoring witnesses.

II. TERMS AND CONDITIONS OF SETTLEMENT

12. “The prime determinant in the consideration of a proposed Settlement is whether the settlement is in the public interest.”¹ 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.”²

13. 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

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

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

Settlement be recommended by ALJ Myers; and approved by the Commission, without modification.

A. Capacity Reserve (Joint Petition ¶ 13).

In the Settlement, UGI and the Parties agree, given the increased frequency of pipeline incidents and the significant risk associated with such incidents, the Company will be permitted to increase its capacity reserves for its PGC and Retail Choice customer markets from 2.5% to 5%, in advance of the upcoming winter (2020-2021). These increased reserves will provide the Company with additional flexibility to ensure the safe and reliable delivery of natural gas supplies to its customers. The Parties reserve their right to challenge prospective acquisitions or renewals of capacity reserves in a future PGC proceeding.

UGI Gas witness Angelina Borelli detailed the Company's reasons for proposing an increase to the Company's capacity reserve³ culminating with the request for the proposed and settled upon increase.⁴ I&E did not submit testimony regarding the merits of the agreed upon capacity reserve increase. However, OCA witness Mierzwa submitted extensive testimony regarding the Company's capacity reserve.⁵ I&E technical staff analyzed both the claims made by the Company and the testimony of OCA witness Mierzwa. I&E supports this settled upon term as a full and fair compromise that provides regulatory certainty and a resolution of this issue, all of which facilitates the Commission's stated preference favoring negotiated settlements as in the public interest.

³ See UGI Gas St. No. 2, pp. 6-18.

⁴ *Id.* at 17.

⁵ See OCA St. No. 1, pp. 7-11.

B. WACOD Modifications (Joint Petition ¶ 14).

In the Settlement, UGI and the Parties agree, regarding OCA witness Mierzwa's proposal that UGI Gas modify its WACOD calculation so that Retail Choice customers bear a proportionate share of the capacity reserve margin costs,⁶ the Company will include the full 5% capacity reserve in the WACOD calculation for Choice transportation customers and their suppliers and collect their share of the capacity costs through the WACOD charged to those Retail Choice suppliers.

OCA witness Jerome Mierzwa detailed the OCA's reasons for proposing that UGI Gas modify its WACOD calculation so that Retail Choice customers bear a proportionate share of the capacity reserve margin costs in OCA Statement No. 1⁷ culminating with the request for the proposed and settled upon compromise.⁸

I&E did not submit testimony regarding the merits of the agreed upon WACOD calculation modification. I&E technical staff did, however, analyze the proposal made by OCA witness Mierzwa. I&E supports this settled upon term as a full and fair compromise that provides regulatory certainty and a resolution of this issue, all of which facilitates the Commission's stated preference favoring negotiated settlements as 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. I&E believes the agreed upon Settlement terms reflect the amicable agreement among the parties.

⁶ OCA St. No. 1, pp. 9-11.

⁷ *Id.*

⁸ *Id.*, at 11.

C. Design Day (Joint Petition ¶ 15).

In the Settlement, UGI and the Parties agree, the Company will be permitted to use a design day figure of 2.02 BCF, which includes 1.137 BCF of design cold firm requirements and 0.057 BCF of capacity reserves for the Company's firm core market needs (PGC and Choice Customer markets).

I&E did not submit testimony regarding the merits of the agreed upon design day figures. I&E technical staff analyzed the Company's proposal and the supporting testimony. After a full and complete review of the testimony and exhibits submitted by the Parties; and after negotiations between and among the Parties; I&E supports this settled upon term as a full and fair compromise that provides regulatory certainty and a resolution of this issue, all of which facilitates the Commission's stated preference favoring negotiated settlements as in the public interest.

D. Award of April 2020 RFP (Joint Petition ¶ 16).

In the Settlement, UGI and the Parties agree, consistent with the Company's primary firm requirements and least-cost fuel procurement obligations, UGI Gas will acquire 3,813 dth of capacity from Tennessee Gas Pipeline and accept the offer from UGI Energy Services LLC that provides 38,469 dth of capacity and consolidates the new service with the Company's three existing agreements PNG-CO-1006, PNG-CO-1007, and PNG-CO-1009, as discussed by UGI Gas witness Angelina M. Borelli.⁹

I&E did not submit testimony regarding the merits of the awarding of the April 2020 RFP. I&E technical staff analyzed the Company's proposal and the supporting testimony. After a full and complete review of the testimony and exhibits submitted by the Parties; and

⁹ See UGI St, No, 2, pp. 31-35.

after negotiations between and among the Parties; I&E supports this settled upon term as a full and fair compromise that provides regulatory certainty and a resolution of this issue, all of which facilitates the Commission's stated preference favoring negotiated settlements as in the public interest.

E. Peaking Contract RFP Modifications (Joint Petition ¶ 17).

In the Settlement, UGI and the Parties agree, the Company will continue to use the Requests for Proposals ("RFPs") format as agreed to in the 2019 PGC Settlement at Docket No. R-2019-3009647 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 over/under collection and PGC interest impacts with regard to fixed charges in live Excel format. The Company will make the RFP responses available in future PGC proceedings to the statutory Parties.

I&E submitted extensive testimony regarding the payment terms specified in UGI's RFP's.¹⁰ I&E continues to recommend that the Company alter future peaking contract payment schedules to eliminate payments in November and revise the payment schedule to a shorter four-month schedule (December through March) to more appropriately match gas costs and revenues and to reduce the large under collection in the final month of the PGC year.¹¹

¹⁰ See I&E St. No. 1, pp. 5-9; I&E St, No. 1-SR, pp. 2-8.

¹¹ See I&E St. No. 1, p. 9; I&E St, No. 1-SR, p. 8.

Nevertheless, after a full and complete review of the testimony and exhibits submitted by the Parties; I&E supports this settled upon term as a full and fair compromise that provides regulatory certainty and a resolution of this issue. Further, this settlement term represents a continuation of the format agreed to in the 2019 UGI Gas PGC settlement. 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 of the parties, all of which facilitates the Commission's stated preference favoring negotiated settlements as in the public interest.

III. THE SETTLEMENT SATISFIES THE PUBLIC INTEREST

14. I&E represents that all issues raised in testimony have been satisfactorily resolved through discovery and negotiations 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.

15. 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.

16. 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.

17. 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.

18. 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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Prosecutor
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Dated: August 26, 2020

Appendix C

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2020-3019680
	:	
UGI Utilities, Inc. – Gas Division	:	

STATEMENT OF THE
OFFICE OF CONSUMER ADVOCATE
IN SUPPORT OF SETTLEMENT

The Office of Consumer Advocate (OCA), a signatory party to the Stipulation in Settlement of Section 1307(f) Rate Investigation (Settlement) in the above-captioned proceeding, respectfully requests that the terms and conditions of the Settlement be approved by the Administrative Law Judge (ALJ) and the Pennsylvania Public Utility Commission (Commission). The Settlement resolves all issues regarding UGI Utilities, Inc. – Gas Division’s annual reconciliation of purchased gas cost (PGC) rates. It is the OCA’s position that the proposed Settlement is in the public interest.

I. INTRODUCTION

On May 1, 2020, pursuant to Sections 53.64 and 53.65 of the Commission’s Rules and Regulations, UGI Utilities, Inc. – Gas Division (UGI Gas or the Company) submitted its pre-filing information in support of its annual reconciliation of purchased gas cost (PGC) rates. On May 29, 2020, the OCA filed a Notice of Appearance, Formal Complaint, and Public Statement in this matter. On June 1, 2020, the Company made its definitive filing. The Company proposed a PGC rate of \$4.3450 per Mcf for the residential class, which was a decrease from the then current PGC rate of \$4.3631 per Mcf.

The Company's filing was assigned to the Office of Administrative Law Judge and was further assigned to Administrative Law Judge Benjamin Myers for investigation and scheduling of hearings to determine whether the Company's gas costs comply with the standards set forth in the Public Utility Code. ALJ Myers conducted a Prehearing Conference in this matter on June 10, 2020. On June 17, 2020, a Motion for Protective Order was filed by the Company, which was granted by ALJ Myers on June 18, 2020.

As part of its investigation and analysis of the Company's filings, the OCA served discovery on the Company. On July 8, 2020, the OCA submitted the Direct Testimony of Jerome D. Mierzwa. The Joint Petitioners then began settlement discussions. As a result of these discussions and the efforts of the Joint Petitioners to examine the issues raised in this proceeding, a settlement in principle was achieved prior to the date for evidentiary hearings. On August 4, 2020, the Company advised the ALJ of the settlement in principle and requested suspension of the procedural schedule and for the admission of the evidence by stipulation. As a result of the settlement in principle, the August 6, 2020 evidentiary hearing was cancelled.

For the reasons set forth below, the OCA submits that this Settlement should be accepted by the Commission as in the public interest.

II. TERMS AND CONDITIONS OF THE SETTLEMENT

The following discussion represents the terms of the Settlement that address the OCA's concerns in this case.

A. Capacity Reserve

In his direct testimony, Mr. Mierzwa addressed his concern with the Company's proposal to increase its capacity reserves for its PGC and Retail Choice customer markets from 2.5% to 5% in advance of the upcoming winter (2020-2021). Mr. Mierzwa noted that Philadelphia Gas Works ("PGW") and PECO Energy Company ("PECO") are similarly situated to UGI in that they are in close proximity to UGI and are both primarily served by Texas Eastern and Transco. OCA St. No. 1 at 8. He noted that neither PGW nor PECO maintain a capacity reserve margin in response to the recent interstate pipeline *force majeure* events, and that the Commission has consistently found that PGW and PECO provide least-cost reliable service. Id. at 9.

In rebuttal, the Company provided evidence of new, additional pipeline disruptions that would have an impact on UGI's operations. UGI St. No. 2-R at 5-8. Based on this new information, the OCA agrees that the requested increase from 2.5% to 5% is in the public interest. The Joint Petitioners reserve their right to challenge prospective acquisitions or renewals of capacity reserves in a future PGC proceeding. Id.

This term addresses the OCA's concerns by making sure the Company's customers continue to receive safe and reliable natural gas.

B. Weighted Average Cost of Demand ("WACOD")

In his direct testimony, Mr. Mierzwa raised his concern that under UGI's WACOD approach to pricing the interstate pipeline firm transportation capacity assigned to suppliers serving Core firm transportation customers, only PGC customers are currently responsible for the

costs associated with maintaining a reserve margin. OCA St. No. 1 at 9. He further stated that “[t]his is unreasonable because both the current 2.5 percent and proposed 5 percent reserve margins are based on the capacity resources maintained by UGI to serve Core customers which includes resources to serve Core transportation customers, and if the reserve margins were ever utilized, would benefit Core transportation customers.” Id. at 9-10. Mr. Mierzwa recommended that “UGI’s capacity assignment pricing procedures can be modified to ensure Core transportation customers are responsible for a proportionate share of the incremental capacity reserve margin costs by reducing the amount of the capacity included in UGI’s WACOD calculations by the reserve margin percentage.” Id. at 11.

As a result of settlement discussions regarding distribution of capacity reserve margin costs across customers classes, the Company agreed to include the full 5% capacity reserve in the WACOD calculation for Choice transportation customers and their suppliers and collect their share of the capacity costs through the WACOD charged to those Retail Choice suppliers effective December 1, 2020. Settlement ¶ 14.

This term addresses the OCA’s concerns by ensuring that capacity reserve margin costs are distributed appropriately. The OCA submits that this resolution is reasonable and in the public interest.

C. Other Provisions

The Settlement includes three additional provisions that OCA did not address in testimony: Design Day, Award of April 2020 Request for Proposal (“RFP”) and Peaking Contract RFP Modifications. Settlement ¶¶ 15-17. The OCA did not address these issues in testimony and submits that these provisions are reasonable.

III. CONCLUSION

For the foregoing reasons, the Office of Consumer Advocate submits that the terms and conditions of the Settlement are in the public interest and, therefore, should be approved.

Respectfully Submitted,

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August 26, 2020
294751

Appendix D

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2020-3019680
	:	
UGI Utilities, Inc. – Gas Division 1307(f)	:	

**STATEMENT OF
THE OFFICE OF SMALL BUSINESS ADVOCATE
IN SUPPORT OF THE
JOINT PETITION FOR SETTLEMENT OF
SECTION 1307(f) RATE INVESTIGATION**

I. 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” or the “Company”), on May 1, 2020.

The OSBA participated in the negotiations that led to the proposed settlement and is a signatory to the Joint Petition for Settlement of Section 1307(f) Rate Investigation (“*Joint Petition*”). The OSBA submits this statement in support of the *Joint Petition*.

II. The Joint Petition

The *Joint Petition* sets forth a comprehensive list of issues that were resolved through the negotiation process.

Although the OSBA did not serve testimony in this proceeding, the OSBA conducted a review of a number of issues affecting small business customers, which are discussed below. In general, the OSBA determined that its analysis did not justify submission of testimony in this proceeding, but may merit attention in future proceedings.

Lost and Unaccounted-For Gas

UGI continues to exhibit one of the lower levels of lost and unaccounted-for gas (“LAUFG”) among Pennsylvania natural gas distribution companies (“NGDCs”). According to UGI’s 2019 Annual Report on Unaccounted for Gas, the Company’s LAUFG rate ranged from 0.28% (North Rate District) to 1.58% (Central Rate District). Overall, the OSBA did not identify any significant concerns about either the level or trends in UGI’s LAUFG rates in this proceeding.

Design Day

For this proceeding, the OSBA conducted an independent evaluation of design day demand levels, based on statistical analysis of load data. In general, the Company’s proposed design day demand levels are reasonably consistent with the OSBA’s analysis. Therefore, the OSBA accepts the design day forecast of UGI without affirmatively endorsing the Company’s methodology.

Revenue Sharing Incentive Mechanism

UGI is not proposing to modify its current 75/25 sharing mechanism for off-system sales and capacity release revenues. Because this sharing approach is generally the standard practice

for Pennsylvania NGDCs, the OSBA supports the continuation of the 75/25 split.

Retainage Rate

UGI updates its retainage rate each year based on a three-year rolling average of LAUFG and company use gas for the three prior years ending September 30. The current retainage rate for Rates R, RT, N and NT is 1.1%. Effective November 1, 2020, the retainage rate for all customers will be based on the three years ending September 30, 2020. OSBA did not identify any significant concerns about either the level or trends in UGI's retainage rate in this proceeding.

III. Conclusion

For the reasons set forth in the *Joint Petition*, as well as the additional factors that are enumerated in this statement, the OSBA supports the proposed *Joint Petition* and respectfully requests that the ALJ and the Commission approve the *Joint Petition* in its entirety.

Respectfully submitted,

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