

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of UGI Utilities, Inc. – Electric	:	
Division for Approval of a Default Service	:	P-2020-3019907
Plan for the period of June 1, 2021 through	:	G-2020-3019908
May 31, 2025	:	

RECOMMENDED DECISION

Before
Dennis J. Buckley
Administrative Law Judge

INTRODUCTION

This Recommended Decision considers the Joint Petition for Settlement of UGI Utilities, Inc. – Electric Division’s Fourth Default Service Plan (DSP IV). The term of DSP IV is from June 1, 2021 through May 31, 2025. This decision recommends that the Commission approve, without modification, the Joint Petition for Settlement filed by the parties to this proceeding. The Joint Settlement fully resolves all of the issues in this proceeding and is in the public interest, as will be discussed below. The statutory deadline is February 26, 2021.

HISTORY OF THE PROCEEDING

On May 26, 2020, UGI Utilities, Inc. – Electric Division (UGI or Company), filed a Petition with the Pennsylvania Public Utility Commission (Commission) for approval of its DSP IV to establish the terms and conditions under which UGI will acquire Default Service supplies including Alternative Energy Portfolio (AEPS) credits from June 1, 2021 through May 31, 2025 (DSP IV Term).

On June 8, 2020, a Prehearing Conference Notice was issued informing parties that an Initial Telephonic Prehearing Conference would be held on July 8, 2020.

On June 11, 2020, the Office of Small Business Advocate (OSBA) filed its Answer, Notice of Intervention and Public Statement.

Notice of UGI's Default Service Plan filing was published in the *Pennsylvania Bulletin* on June 20, 2020, setting a deadline of July 10, 2020 for the filing of Interventions, Answers or Protests to the DSP IV Petition. 50 Pa.B. 3094 (June 20, 2020).

On June 30, 2020, the Office of Consumer Advocate (OCA) filed its Answer, Notice of Intervention and Public Statement.

On July 8, 2020, a prehearing conference was held resulting in the adoption of a procedural schedule.

On July 15, 2020, UGI filed a Motion for Protective Order. The Motion was unopposed.

In accordance with the procedural schedule, OCA and OSBA submitted direct testimony on August 6, 2020.

On August 31, 2020, the Company, OCA, and OSBA all submitted written rebuttal testimony and exhibits.

On September 11, 2020, the parties informally requested that the Surrebuttal testimony due date be revised (from September 15, 2020) to September 25, 2020 and the Hearing date be revised (from September 23, 2020) to October 2, 2020. On September 11, 2020, an Order was issued revising the Litigation Schedule, which approved these amendments to the procedural schedule.

On September 23, 2020, the parties informally requested that the Surrebuttal testimony due date be extended (from September 25, 2020) to September 30, 2020. The request was informally approved on the same day.

On September 30, 2020, the Company, OCA, and OSBA filed written Surrebuttal testimony and exhibits.

As a result of settlement discussions held in this proceeding, and the efforts of the parties to examine the issues raised, a settlement in principle was achieved prior to the date for evidentiary hearing.

A hearing was held on October 2, 2020 and was attended by counsel for the parties. Because a court reporter was unable to join the hearing, the parties agreed to admit the testimony and exhibits by way of written stipulation. The parties also agreed to file a Joint Petition for Settlement of all issues by October 23, 2020.

On October 9, 2020, the parties filed a Joint Stipulation for Admission of Evidence.

On October 23, 2020, the parties filed a Joint Petition for Settlement which included the terms of the Settlement therein.

It is recommended that the Commission adopt, without modification, the Joint Petition for Settlement filed by the parties to this proceeding. For the reasons set forth below, the Settlement fully resolves all of the issues in this proceeding and is in the public interest.

THE PROPOSED SETTLEMENT

For ease of reference, the paragraph numbering of the Settlement terms is maintained below as it appears in the Joint Petition for Settlement. The Settlement terms are as follows:

II. SETTLEMENT TERMS

A. PROCUREMENT PLAN FOR GSR-1

17. To serve its Generation Supply Rate-1 (“GSR-1”) customer grouping during the term of DSP IV, the Company will procure 25% of supply through block purchases and the remaining 75% through load following full-requirements purchases to implement a competitive procurement plan that assures adequate and reliable service at the least cost over time. Variances between scheduled load and actual load will continue to be reconciled in the PJM hourly spot market (as set forth in Section II.A(1)(c) of the Company’s DSP IV Petition and as described in UGI Electric St. No. 1 at pp. 7-8).

B. PROCUREMENT SCHEDULE FOR GSR-1

18. To serve its GSR-1 customer grouping during the term of DSP IV, the Company will solicit bids for 12-month and 24-month supply deliveries for its load following full-requirement purchases (for 75% of the total GSR-1 load) as set forth in the Appendix B. The Company will satisfy the remaining 25% of the total GSR-1 load through block procurements and will solicit bids for 6-month supply deliveries as set forth in Appendix B.

19. If the Company is unsuccessful in obtaining bid responses for load following full- requirements supply to be delivered over 24-month periods, the Company will be permitted (as part of its Contingency Plan set forth in Section II.E of the Company’s DSP IV Petition and as described in UGI Electric St. No. 1 at pp. 18-20 and if time permits) to satisfy its obligation to serve its GSR-1 customer grouping through 12-month load following full-requirements procurements during the term of DSP IV. To ensure there are no supply gaps between the end of DSP IV and the beginning of DSP V, the Company will issue a 12-month tranche (for load-following supplies) in the Fall of 2024. The delivery period for this tranche will be December 2024 through November 2025.

C. GSR-1 PROCUREMENTS FOR RESIDENTIAL AND COMMERCIAL & INDUSTRIAL CUSTOMERS

20. The Company will satisfy its GSR-1 supply needs through bids seeking residential and small commercial/industrial supply on a combined basis as set forth in Section II.A(1) of the Company's DSP IV Petition and as described in UGI Electric St. No. 1 at pp. 5-8.

D. PROCUREMENT SCHEDULE GSR-2

21. The Company will continue purchasing supplies for its GSR-2 customer grouping through the PJM hourly spot market as set forth in Section II.A(2) of the Company's DSP IV Petition and as described on UGI Electric St. No. 1 at pp. 8-9.

E. RECONCILIATIONS

22. The Company will revise its reconciliation method as applicable to situations when quarterly Energy Cost Adjustments ("ECA") would result in more than a five percent (5%) change in the average total residential bill for default service. Specifically, when the ECA would result in less than (or equal to) a five percent (5%) change in the average total residential bill, the Company will refund/recover the balance over a three-month period. In instances when the ECA would result in more than a five percent (5%) change in the average total residential bill, the Company will refund/recover the balance over a six, nine, or twelve-month period (as determined by the Company).

F. MARKET MONITOR

23. As requested in OCA St. No. 1, p. 16, the responsibilities of the Company's Market Monitor will include certifying that the Company's RFP solicitations are conducted in a resource-neutral, non-discriminatory, and competitive manner.

G. CONTINGENCY PLAN

24. The updates to the Company's Contingency Plan, as set forth in Section II.E of the DSP IV Petition, in UGI Electric St. No. 1 at pp. 18-20, and in Paragraph 19 above, are accepted. Additionally, DSP IV's Contingency Plan will make block and load following full-requirements procurements (in consultation with Pace Global Energy Services, LLC ("Pace"), the Company's Market Monitor) only if time permits. If time does not permit, the Company will address any load following full-requirements shortfall by making purchases in the spot market.

H. REVERSE MIGRATION (GSR-2 TO GSR-1)

25. The Company will update the Rider B – Generation Supply Service Surcharge section in its Electric Tariff to include a provision for customers who switch from GSR-2 to GSR-1 during the DSP IV term. Customers who undergo this reverse migration will be exempted from any over/under collections as reflected in the Company's E-factor (existing as of May 31, 2021) for a period of 12 months after returning to GSR-1. The Company is permitted to recover, as a DSP administrative expense, programming costs required to implement a billing system change (required to implement this reverse migration provision) in an amount of \$3,000.

I. TARIFF CLARIFICATIONS

26. In the Rider B - Generation Supply Service Surcharge section of the Company's Electric Tariff, the Company will:

a. Revise the Price To Compare provision to eliminate the reference to the Alternative Energy Cost Charge ("AECC") and applicable base transmission rate language.

b. Clarify that the customer's highest billing demand will be calculated over the twelve-month period ending September 30, 2020.

J. PROCUREMENT STUDY

27. Before June 30, 2022, the Company will file a study of the relative cost of default service supplies for GSR-1 residential and non-residential customers. The Company may select a consultant of its choosing to perform the study. The filing will include all workpapers and assumptions used in the analysis, subject to reasonable confidentiality restrictions as necessary. The study will rely on data from DSP III, DSP IV and actual data through at least the Fall of 2021. The study will evaluate the relative costs to GSR-1 residential and non-residential customers associated with: (1) both block-and-spot and full requirements procurements methods; and (2) both separate procurements and cost allocations being made to the residential and non-residential customer groups under a combined procurement.

28. At the time the filing described in Paragraph 27 is made, the Company will make recommendations regarding whether to: (1) continue its existing combined procurement methodology for residential and non-residential customers under the single GSR-1 rate; (2) propose separate procurements for residential and non-residential GSR-1 customers including separate GSR-1 rates for each respective customer class; or (3) maintain combined procurements with differentiated rates for residential and non-residential GSR-1 customers.

29. Nothing herein restricts any party's rights under law to make any filing in response to the Company's June 30, 2022 filing (e.g., study and recommendation). In response to the Company's June 30, 2022 filing, OCA and OSBA may make responsive proposals to revise the Company's proposal during the DSP IV period or may oppose such proposals, except that the parties agree not to propose a change in the procurement methodology for rates to become effective prior to June 1, 2023. This settlement provision does not restrict any position any party may take in any such proceeding or any other proceeding.

30. The parties agree that the Company may recover the cost to perform the study described herein as an administrative expense in its current DSP IV proceeding.

III. PUBLIC INTEREST

31. This Settlement was achieved by the Joint Petitioners after an extensive investigation of UGI Electric's filing, including extensive informal and formal discovery and the service of written direct, rebuttal, and surrebuttal testimony by UGI Electric, OCA, and OSBA.

32. Acceptance of the Settlement avoids the necessity and costs of further administrative and potential appellate proceedings.

33. The Settlement provides for the recovery of default service costs that are just and reasonable given the positions advanced in the testimony and exhibits of the various parties.

34. Attached as Appendices C through E are Statements in Support submitted by UGI Electric, OCA, and OSBA setting forth the bases upon which they believe the Settlement is in the public interest.

Further, the proposed Joint Settlement includes the customary conditions and disclaimers associated with a Settlement pending Commission review and approval:

35. This Settlement is conditioned upon the Commission's approval of the terms and conditions contained in this Settlement without modification. This Settlement shall become effective on the date on which the Commission enters a final order that adopts the terms and conditions of this Settlement. If the Commission enters a final order that approves this Settlement, but with one or more modifications, this Settlement shall nonetheless become effective unless one or more of the Joint Petitioners elects to withdraw from the Settlement. Such election to withdraw must be made in writing, filed with the Secretary of the Commission, and served upon all parties within five business days after the entry of an Order modifying the Settlement. In such event, the Settlement shall be void and of no effect.

36. The Joint Petitioners acknowledge and agree that this Settlement, if approved, shall have the same force and effect as if the Joint Petitioners had fully litigated this proceeding resulting in the establishment of rates that are just and reasonable.

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

38. The Joint Petitioners acknowledge that the Settlement reflects a compromise of competing positions and does not necessarily reflect any party's position with respect to any issues raised in this proceeding. This Settlement may not be cited as precedent in any future proceeding, except to the extent required to implement this Settlement.

39. This Settlement is being presented only in the context of this proceeding in an effort to resolve the proceeding in a manner which is fair and reasonable. The Settlement is presented without prejudice to any position which any of the Joint Petitioners may have advanced and without prejudice to the position any of the Joint Petitioners may advance in the future on the merits of the issues in future proceedings except to the extent necessary to effectuate the terms and conditions of the Settlement. This Settlement does not preclude the Joint Petitioners from taking other positions in proceedings of other public utilities involving Default Service Plans or in any other proceeding.

THE EVIDENTIARY RECORD

The evidentiary record in this proceeding is comprised of the following:

UGI ELECTRIC'S TESTIMONY AND EXHIBITS

UGI Electric Exhibit No. 1 – UGI Electric's Petition for Approval of a Default Service Plan for the Period of June 1, 2021 through May 31, 2025, including Appendices A through G.

UGI Electric Statement No. 1 – Direct Testimony of Angelina M. Borelli, including UGI Electric Exhibit Nos. AMB-1, AMB-2(a) (CONFIDENTIAL), AMB-2(b) (CONFIDENTIAL), and AMB-3.

UGI Electric Statement No. 2 – Direct Testimony of Stephen F. Anzaldo, including UGI Electric Exhibit Nos. SFA-1 and SFA-2.

UGI Electric Statement No. 1-R – Rebuttal Testimony of Angelina M. Borelli, including UGI Electric Exhibit No. AMB-1-R (CONFIDENTIAL).

UGI Electric Statement No. 2-R – Rebuttal Testimony of Stephen F. Anzaldo.

UGI Electric Statement No. 1-SR – Surrebuttal Testimony of Angelina M. Borelli.

UGI Electric Statement No. 2-SR – Surrebuttal Testimony of Stephen F. Anzaldo.

OCA'S TESTIMONY AND EXHIBITS

OCA Statement No. 1 – Direct Testimony of Serhan Ogur, including Appendix A and OCA Exhibit SO-1.

OCA Statement No. 1-R – Rebuttal Testimony of Serhan Ogur, including OCA Exhibits SO-1R and SO-2R.

OCA Statement No. 1-S – Surrebuttal Testimony of Serhan Ogur, including OCA Exhibits SO-1S and SO-2S.

OSBA’S TESTIMONY AND EXHIBITS

OSBA Statement No. 1 – Direct Testimony of Robert D. Knecht, including OSBA Exhibits IEC-1 through IEC-3.

OSBA Statement No. 1-R – Rebuttal Testimony of Robert D. Knecht, including OSBA Exhibits IEC-R1 and IEC-R2.

OSBA Statement No. 1-S – Surrebuttal Testimony of Robert D. Knecht, including OSBA Exhibit IEC-S1.

Verifications for UGI Electric’s testimony and exhibits are attached to the Joint Stipulation of Facts Appendix A. All other verifications for the parties’ witnesses were attached to the witnesses’ pre-served testimony.

The Joint Petitioners have reserved their respective rights to submit additional testimony and to cross-examine witnesses in the event the Joint Petition for Settlement is not approved without modification.

DISCUSSION

A. Legal Standards

Section 2807(e)(6) of the Pennsylvania Public Utility Code, 66 Pa. C.S.

§ 2807(e)(6) requires:

A default service plan approved by the commission prior to the effective date of this section shall remain in effect through its approved term. At its sole discretion, the default service provider may propose amendments to its approved plan that are consistent with this section, and the commission shall issue a decision whether to approve or disapprove the proposed amendments within nine months of the date that the amendments are filed. If the commission fails to issue a final order within nine months, the amendments shall be deemed to be approved and the default service provider may implement the amendments as filed.

66 Pa. C.S. § 2807(e)(6).

In order to accept a settlement, the Commission must determine that the proposed terms and conditions are in the public interest. *Pa. Pub. Util. Comm'n v. C.S. Water and Sewer Assocs.*, 74 Pa. PUC 767 (1991); *Pa. Pub. Util. Comm'n v. Philadelphia Elec. Co.*, 60 Pa. PUC 1 (1985).

B. Public Interest Considerations

Commission policy promotes settlements. 52 Pa. Code § 5.231. Settlements lessen the time and expense the parties must expend litigating a case and at the same time conserve administrative hearing resources. The Commission has indicated that settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding. 52 Pa. Code § 69.401. Many proceedings are expensive to litigate and the cost of such litigation at a reasonable level is an operating expense recovered in the rates approved by the Commission. This means that a settlement, which allows the parties to avoid the substantial costs of preparing and serving testimony and the cross-examination of witnesses in lengthy hearings, the preparation and service of briefs, reply briefs, exceptions and reply exceptions, together with the briefs and reply briefs necessitated by any appeal of the Commission's decision, yields significant expense savings for the company's customers. That is one reason why settlements are encouraged by long-standing Commission policy.

1. Supporting Statements

The individual issue areas referenced in UGI's Supporting Statement are summarized, below. I note, however, that although the Supporting Statements of both the OCA and the OSBA do not oppose adoption of the Joint Settlement, they are more in the nature of a summary of the litigation positions of those parties in negotiating the proposed Settlement. This is understandable given the limitations of the Pace Study, about which more will be said, below. To the extent that the OCA and OSBA's Supporting Statements comment as to how the Joint Settlement is in the public interest or may include a matter of ongoing concern (i.e., the availability to the parties of the methodology, assumptions, calculations and working papers

associated with any third-party study), those comments will be set forth after the summary of each issue area individually addressed by UGI in its Supporting Statement.

a. Procurement Plan for GSR-1

With respect to the Procurement Plan for GSR-1 customers, UGI states, in summary:

Under the Settlement, the Joint Petitioners have agreed that in order to serve its GSR-1 customer grouping during the term of DSP IV, the Company will procure 25% of supply through block purchases and the remaining 75% through load following full-requirements purchases to implement a competitive procurement plan that assures adequate and reliable service at the least cost over time. Variances between scheduled load and actual load will continue to be reconciled in the PJM hourly spot market (as set forth in Section II. A(1)(c) of the Company's DSP IV Petition and as described in UGI Electric St. No. 1 at pp. 7-8). (Settlement ¶ 17.)

These Settlement terms reflect a reasonable compromise of the parties' positions. Whereas UGI Electric proposed procuring 50% supply through block purchases and the other 50% supply through load following full requirements purchases, OCA recommended that the Company entirely rely on load following full requirements purchases. By agreeing to 75% load following full requirements purchases and 25% block purchases, the parties' have reached an equitable compromise of their positions. Importantly, the Settlement assures that the competitive procurement plan will provide customers with "adequate and reliable service at the least cost over time." (Settlement ¶ 17.) Moreover, these Settlement terms are designed to provide greater stability to the Company's GSR-1 rates, which ultimately will benefit UGI Electric's customers. Thus, as a result of the parties reaching a resolution of the GSR-1 procurement issues, customers will still continue to receive adequate and reliable service. For these reasons, these Settlement terms are just, reasonable, and in the public interest and should be approved without modification.

UGI Supporting Statement at pp. 7-8.

b. Procurement Schedule for GSR-1

With respect to the Procurement Schedule for GSR-1 customers, UGI states, in summary:

The Settlement provides that in order to serve its GSR-1 customer grouping during the term of DSP IV, the Company will solicit bids for 12-month and 24-month supply deliveries for its load following full-requirement purchases. More specifically, the 75% of load following full requirement purchases will be satisfied through contracts with 12-month and 24-month delivery periods as set forth in Appendix B to the Settlement. For the 25% of Block procurements, the Company will solicit bids for 6-month supply deliveries as set forth in the Settlement's Appendix B. (Settlement ¶ 18.)

Furthermore, if the Company is unsuccessful in obtaining bid responses for load following full requirements supply to be delivered over 24-month periods, the Company will be permitted (as part of its Contingency Plan set forth in Section II. E of the Company's DSP IV Petition and as described in UGI Electric St. No. 1 at pp. 18-20, and if time permits) to satisfy its obligation to serve its GSR-1 customer grouping through 12-month load following full-requirements procurements during the term of DSP IV. To ensure there are no supply gaps between the end of DSP IV and the beginning of DSP V, the Company will issue a 12-month tranche (for load-following supplies) in the Fall of 2024. The delivery period for this tranche will be between December 2024 and November 2025. (Settlement ¶ 19.)

As a result, the Settlement is a reasonable compromise of the parties' positions. UGI Electric will satisfy 75% of load following full requirement purchases through contracts with 12-month and 24-month delivery periods, with the other 25% being satisfied through block procurements. Both of those procurements will be undertaken pursuant to reasonable procurement schedules agreed to by the Joint Petitioners. And if the Company is unsuccessful in obtaining bids for load following full requirements supply to be delivered over 24-month periods, the Settlement contains provisions to address that outcome. Further, the Settlement is designed to prevent any supply gaps as the DSP IV period ends and the DSP V period begins. Lastly, as mentioned previously, these procurements are designed to provide GSR-1 customers with adequate and reliable service at the least cost over time and to improve the stability of the Company's GSR-1 rates. Thus, the Settlement is just, reasonable, and in the public interest and should be approved without modification.

UGI Statement in Support at pp. 9-10.

With respect to this issue, the OCA states:

These Settlement provisions represent a reasonable compromise between the Company's proposal for a 50/50 split between block purchases and load following full-requirements contracts and the OCA's proposal for 100% load following contracts, made up of a 50/50 split between 12- and 24-month contracts. A greater percentage of the overall portfolio will consist of LFFR products and 24-month contracts will be introduced to the portfolio for the first time. The OCA submits that these Settlement provisions will enhance default service rate stability over time and are in the interests of the Company's GSR-1 customers.

OCA Statement in Support at p. 11.

c. GSR-1 Procurements for Residential and C&I Customers

With respect to GSR-1 Procurements for Residential and C&I Customers, UGI states, in summary:

Under the Settlement, the Company will satisfy its GSR-1 supply needs through bids seeking residential and small commercial/industrial supply on a combined basis as set forth in Section II. A(1) of the Company's DSP IV Petition and as described in UGI Electric St. No. 1 at pp. 5-8. (Settlement ¶ 20.) However, the Settlement also provides detailed commitments for the Company to address OCA's and OSBA's concerns about the original and revised Pace Studies and their potential recommendations to make changes to the Company's current practice of procuring GSR-1 supplies on a combined basis for residential and small commercial customers. Therefore, this Settlement provision, when combined with the commitments addressed in Section III.J., *infra*, is in just, reasonable, and in the public interest and should be approved without modification.

UGI Supporting Statement at p. 14.

d. Procurement Schedule at GSR-2

With respect to the Procurement Schedule at GSR-2, UGI states, in summary:

No parties raised any issues concerning the Company's strategy for procuring default service supplies for GSR-2 customers.

The Settlement provides that UGI Electric will continue purchasing supplies for its GSR-2 customer grouping through the PJM hourly spot market as set forth in Section II. A(2) of the Company's DSP IV Petition and as described on UGI Electric St. No. 1 at pp. 8-9. (Settlement ¶ 21.) Therefore, the Settlement simply memorializes the Company's unopposed procurement strategy for GSR-2 default service supplies. Given that the Company's DSP IV filing was thoroughly investigated by the other parties, their non-opposition to the Company's proposed procurement strategy for GSR-2 supplies is a strong indication that this proposal is appropriate. Thus, this Settlement provision is just, reasonable, and in the public interest and should be approved without modification.

UGI Statement in Support at p. 15.

e. Reconciliations

With respect to Reconciliations, UGI states, in summary:

Under the Settlement, UGI Electric will revise its reconciliation method as applicable to situations when the quarterly ECA would result in more than a five percent (5%) change in the average total residential bill for default service. Specifically, when the ECA would result in less than (or equal to) a five percent (5%) change in the average total residential bill, the Company will refund/recover the balance over a three-month period. In instances when the ECA would result in more than a five percent (5%) change in the average total residential bill, the Company will refund/recover the balance over a six, nine, or twelve-month period (as determined by the Company). (Settlement ¶ 22.) These Settlement terms are a reasonable compromise of the parties' positions and provide additional clarity on the manner in which the Company will refund/recover over/under collections. They also will help ensure that the Company timely recovers any under collections and that GSR-1 customers are timely refunded for any over collections. Thus, these Settlement terms are just, reasonable, and in the public interest and should be approved without modification.

UGI Statement in Support at pp. 17-18.

With respect to this issue, OCA explains that UGI will revise its reconciliation method for instances where a quarterly reconciliation adjustment would result in more than a five percent change in the average total residential bill for default service. In such a case, UGI will refund or recover the balance to customers over either a six, nine or twelve-month period. Adjustments greater than five percent would be refunded or recovered over a period of between three and twelve months. Quarterly reconciliation adjustments less than or equal to a five percent change in the average total residential will continue to be refunded or recovered over a three-month period. OCA Statement in Support at p. 11.

OCA concludes that:

This provision of the Settlement reaches a compromise between the positions of the OCA and the Company with respect to reconciliation. While the OCA preferred Dr. Ogur's "six month/twelve month" proposal, it recognizes that by altering the default supply product mix to include 75% fixed price, load following full-requirements contracts, volatility of the quarterly reconciliation adjustments should be dampened. OCA St. 1 at 18. The reconciliation modification made by the Settlement eliminates the possibility that quarterly adjustments of greater than five percent can be recovered over as little as three months. On balance, the OCA is satisfied that this change coupled with the change in portfolio mix will contribute to moderating default service rate volatility for customers and should be approved.

OCA Statement in Support at pp. 11-12.

f. Market Monitor

With respect to the Market Monitor, UGI states, in summary:

The Settlement provides that as requested in OCA St. No. 1, p. 16, the responsibilities of the Company's Market Monitor will include certifying that the Company's RFP solicitations are conducted in a resource-neutral, non-discriminatory, and competitive manner. (Settlement ¶ 23.) This commitment will help ensure that UGI Electric's DSP IV meets all of PJM's proposed criteria for a state default service auction to be exempt from the definition of a state subsidy. As alleged by OCA witness Dr. Ogur, the failure to qualify for the exemption could

result in a default service auction that is deemed not competitive and resource-neutral, which could have several negative effects, such as the failure to attract any bidders. (OCA St. No. 1, p. 15.) Thus, by helping to avoid such a scenario, this Settlement provision is just, reasonable, and in the public interest and should be approved without modification.

UGI Statement in Support at p. 19.

With respect to this issue, OCA states:

The Settlement provides that the responsibilities of the Company's market monitor, Pace, will include certifying that UGI Electric's solicitations for default service products are conducted in a resource-neutral, non-discriminatory and competitive manner. This satisfies the proposal put forth by the OCA. The importance of this is reinforced by the fact that on October 15, 2020, FERC approved the PJM proposal for exempting from the definition of "state subsidy," default service auctions that meet the four criteria listed in Section II. C. of this Statement in Support. [fn. omitted] The Settlement provision ensures that the Company meets all of those criteria.

OCA Statement in Support at p. 12.

g. Contingency Plan

With respect to the Contingency Plan, UGI states, in summary:

Under the Settlement, the updates to the Company's contingency plan, as set forth in Section II. E of the DSP IV Petition, in UGI Electric St. No. 1 at pp. 18-20, and in Paragraph 2 above, are accepted. Additionally, DSP IV's Contingency Plan will make block and load following full-requirements procurements (in consultation with Pace) only if time permits. If time does not permit, the Company will address any load following full-requirements shortfall by making purchases in the spot market. (Settlement ¶ 24.) Thus, the Settlement memorializes the Company's unopposed changes to its contingency plan, which will help ensure that the Company has procured sufficient supplies to serve its default service customers. Consequently, the Settlement term is just, reasonable, and in the public interest and should be approved without modification.

UGI Statement in Support at p. 20.

h. Reverse Migration (GSR-2 TO GSR-1)

With respect to Reverse Migration (GSR-2 to GSR-1), UGI states, in summary:

The Settlement explicitly incorporates these commitments that the Company made in its rebuttal testimony. (Settlement ¶ 25.) Also, the Settlement provides that the Company is permitted to recover, as a DSP administrative expense, programming costs required to implement a billing system change (required to implement this reverse migration provision) in an amount of \$3,000. (Settlement ¶ 25.)¹ Therefore, the Settlement provisions will resolve the issue raised by OSBA concerning the lack of a parallel exemption for customers migrating from GSR-2 to GSR-1 from the reconciliation charge. As a result, the treatment of migrating GSR-1 and GSR-2 customers will be fair and equitable. The Settlement provisions also will enable UGI Electric to recover the expenses needed to implement this change in the Company's billing system. Thus, these Settlement terms are just, reasonable, and in the public interest and should be approved without modification.

UGI Statement in Support at pp. 21-22.

i. Tariff Clarifications

With respect to Tariff Clarifications, UGI states, in summary:

Under the Settlement, in the Rider B - Generation Supply Service Surcharge section of the Company's Electric Tariff, the Company will:

- a. Revise the Price To Compare provision to eliminate the reference to the Alternative Energy Cost Charge ("AECC") and applicable base transmission rate language.
- b. Clarify that the customer's highest billing demand will be calculated over the twelve-month period ending September 30, 2020.

¹ "The Company will update the Rider B – Generation Supply Service Surcharge section in its Electric Tariff to include a provision for customers who switch from GSR-2 to GSR-1 during the DSP IV term. Customers who undergo this reverse migration will be exempted from any over/under collections as reflected in the Company's E-factor (existing as of May 31, 2021) for a period of 12 months after returning to GSR-1. The Company is permitted to recover, as a DSP administrative expense, programming costs required to implement a billing system change (required to implement this reverse migration provision) in an amount of \$3,000."

(Settlement ¶ 26.)

These changes to the Company's proposed tariff are designed to address the issues identified by OSBA witness Mr. Knecht. By clarifying these tariff provisions, customers will have a clearer understanding of the tariff provisions and their application. Thus, this Settlement terms is just, reasonable, and in the public interest and should be approved without modification.

UGI Statement in Support at pp. 22-23.

j. Procurement Study (The "Pace Study")

With respect to the Procurement Study, UGI states, in summary:

The Settlement provides that before June 30, 2022, the Company will file a different study of the relative cost of default service supplies for GSR-1 residential and non-residential customers. The Company may select a consultant of its choosing to perform the study. The filing will include all workpapers and assumptions used in the analysis, subject to reasonable confidentiality restrictions as necessary. The study will rely on data from DSP III, DSP IV, and actual data through at least the Fall of 2021. The study will evaluate the relative costs to GSR-1 residential and non-residential customers associated with: (1) both block-and-spot and full requirements procurements methods; and (2) both separate procurements and cost allocations being made to the residential and non-residential customer groups under a combined procurement. (Settlement ¶ 27.)

At the time of the filing, the Company will make recommendations regarding whether to: (1) continue its existing combined procurement methodology for residential and non-residential customers under the single GSR-1 rate; (2) propose separate procurements for residential and non-residential GSR-1 customers; or (3) maintain combined procurements with differentiated rates for residential and non-residential GSR-1 customers. (Settlement ¶ 28.)

Additionally, nothing in the Settlement restricts any party's rights under law to make any filing in response to the Company's June 30, 2022 filing (e.g., study and recommendation). In response to the Company's June 30, 2022 filing, OCA and OSBA may make responsive proposals to revise the Company's proposal during the DSP IV period or may oppose such proposals, except that the parties agree not to propose a change in the procurement methodology for rates to become effective prior to June 1,

2023. This settlement provision does not restrict any position any party may take in any such proceeding or any other proceeding. (Settlement ¶ 29.) The Joint Petitioners also agree that the Company may recover the cost to perform the study described herein as an administrative expense in its current DSP IV proceeding. (Settlement ¶ 30.)

UGI Statement in Support at pp. 24-25.

With respect to the Pace Study, specifically, UGI contends that:

In sum, these Settlement provisions are a reasonable approach to address the parties' perceived issues with UGI Electric's Pace Study. Both the OCA and OSBA raised issues concerning their inability to review all of the information and factors considered in the Pace Study, due to Pace's use of its proprietary model. By undertaking this new study, the parties will have access to more detailed information about the relative cost of default service supplies for GSR-1 residential and non-residential customers. Moreover, UGI Electric's filing of study will enable the parties to conduct a more complete analysis of the Company's combined procurement of GSR-1 supplies for residential and small commercial customers. The new study will have searchable inputs and is designed to consider total cost differences, including risk premiums. The Company also will make recommendations on whether to continue this current practice or to adopt one of the OSBA's two recommendations set forth in Mr. Knecht's direct testimony. (See OSBA St. No. 1, pp. 11-12.) The parties then can review the information and make responsive proposals to the Company's recommendations. As a result, these Settlement provisions are designed to completely resolve this issue in a limited timeframe, to provide the parties with a more accurate estimate of the cost difference, and to better equip the parties to make fully informed decisions and recommendations on how to proceed and resolve perceived cross class subsidization concerns.

Therefore, the Settlement will provide the parties with: (1) access to the information they deemed to be lacking with the Pace Study; and (2) a better opportunity to resolve any issues they have with the combined procurement of GSR-1 supplies for residential and small commercial customers. Thus, these Settlement provisions are just, reasonable, and in the public interest and should be approved without modification.

UGI Statement in Support at pp. 25-26.

The OCA, understandably, had concerns with respect to the Pace Study:

This Settlement term reflects a compromise between the Company and the OCA, both of whom supported pursuing the Company's proposed procurement and rate-setting methods for the full term of DSP IV, and the OSBA, who was concerned about the issues raised by the Pace study and did not want to wait four years for those issues to be addressed. Under the Settlement, a study of the costs of serving residential and small commercial customers will be presented roughly one year into DSP IV and if it is determined that changes should be made on the basis of that study, those changes will be implemented halfway through DSP IV and will be in effect for the remainder of that term. As noted above, an important element of the Settlement is that the study UGI Electric will submit by June 30, 2022 will include all assumptions, worksheets and calculations used in reaching the results of the study. This will remove some of the concern and uncertainty both OCA and OSBA had with respect to the Pace study. In light of the questions raised by the Pace study and concern for the reliability of its results, the OCA submits that the approach taken in this Settlement represents a reasonable means of examining the costs of providing default service for the residential and small commercial classes and of determining whether any changes to procurement or rate-setting for the balance of DSP IV are warranted.

OCA Statement in Support at p. 13. (emphasis added)

The OSBA was even more forthright in its concerns about the Pace Study:

The UGI Electric combined approach implies that the same procurement rates and the same per-MWh default service charges apply to both customer groups. To address the reasonableness of this approach, the parties agreed in the Company's last DSP that UGI Electric would evaluate the relative cost for standalone procurement of the two rate class groups. OSBA Statement No. 1, at 8-9.

The Company's response to that provision of the settlement was the "Pace Study," the results (but not the details) of which were submitted and then belatedly revised in this proceeding. In short, even with the belated corrections, the Pace Study concluded that (a) the non-residential class would be substantially less expensive to serve on a stand-alone basis, and (b) the overall cost of combined procurement was modestly lower than separate procurements. OSBA Statement No. 1, at 9-10; OSBA Statement No. 1-S, at 5-6. Thus, the Company's analysis indicated that small business customers are not being treated reasonably under the current combined procurement approach. Unfortunately, the Pace Study is severely lacking in credibility.

Mr. Knecht testified in detail about the problems presented by the Pace Study. The identified problems include: the undisclosed methodology used by Pace; the undisclosed data used by Pace; the lateness of the Pace results provided during this proceeding; [fn. omitted] the multiple revisions to the study provided by Pace; substantial swings and differentials in class load factors over a relatively short period; and the unusual cost differentials reported by the Pace Study (that residential customers are up to 20% more expensive to serve than smaller non-residential customers) compared to standalone procurements at other Pennsylvania EDCs. OSBA Statement No. 1, at 8-12; OSBA Statement No. 1-R, at 6-8; OSBA Statement No. 1-S, at 1-13.

As a result of all the problems (and questions) presented by the Pace Study, the *Joint Petition* proposes to have UGI Electric conduct a new study. The details of that proposed study are set forth in Section J of the *Joint Petition*, at Paragraphs 27-29.

The OSBA submits the proposed new study is a reasonable solution to a difficult problem – a problem that may have significant impact upon the rates paid by the Company’s residential and small business customers. Furthermore, Mr. Knecht recommended a new study as a possible solution to the problem. OSBA Statement No. 1-S, at 6 (“Continue the existing method while the anomalies in the Pace analysis are resolved and alternative ratemaking approaches are more fully developed.”)

Therefore, the OSBA fully supports the *Joint Petition* proposal to conduct a new study that will thoroughly examine the issues purportedly addressed by the Pace Study.

OSBA Statement in Support at 5-7.

2. Supporting Statement Conclusions

UGI concludes that the proposed Settlement is the result of detailed examination of UGI Electric’s proposed DSP IV filing, extensive discovery by the parties, multiple rounds of testimony, and reasonable compromise by knowledgeable Joint Petitioners. UGI maintains that a fair and reasonable compromise of all issues has been achieved in this case and requests that the Commission approve the Company’s DSP IV filing as modified by the Settlement without any modification to the terms proposed in the Settlement. UGI Statement in Support at p. 27.

The OCA concludes that the Settlement is a reasonable and balanced resolution of the issues addressed therein. Specifically:

It provides for an appropriate mix of block energy purchases and load following, full-requirements 12 and 24-month contracts, designed to enhance rate stability for customers. It ensures that reconciliation adjustments of more than 5% of the average residential default service bill will be amortized over a minimum of six months. It further ensures that winners of the Company's default service solicitations or the capacity resources they rely upon will not be deemed to be receiving a state subsidy and therefore subject to the PJM MOPR rule. Finally, it provides a prudent approach for examining cost of service issues between residential and small commercial customers and determining whether any midcourse correction is needed for DSP IV. For these reasons, the OCA finds the Settlement to be in the public interest and in the interest of UGI Electric's residential customers and submits that its terms and conditions should be approved by the Commission.

OCA Statement in Support at 14.

The OSBA concludes that it supports the proposed Joint Petition and respectfully requests that the ALJ and the Commission approve the Joint Petition in its entirety. OSBA Statement in Support at 8.

C. Conclusion and Recommendation

This case is the fourth revision of UGI's DSP. The filing is essentially a modification of UGI's DSP III. The Plan sets forth the terms and conditions by which UGI will acquire and price default service supplies for its non-shopping customers for the four-year duration of DSP IV. Included in the acquisition would be the Alternative Energy Credits necessary to meet UGI Electric's obligations under the Alternative Energy Portfolio Standards Act. The proposed Joint Settlement of this case resolves all of the issues raised by the OCA and the OSBA, and, in the opinion of the undersigned, provides a default service plan which meets the requirements of Section 2807 and the regulations of the Commission at 52 Pa. Code §§ 54.181-54.190. Based on my own evaluation and the support of the Joint Settlement by the public advocates, I conclude that the proposed Joint Settlement is in the public interest. Under

the terms of the Joint Settlement, UGI will be positioned to obtain an adequate electric generation supply to serve non-shopping customers using an acceptable acquisition and pricing methodology.² The OCA efficiently sums up why the Joint Settlement is in the public interest in the Conclusion of its Supporting Statement:

[T]he Settlement is a reasonable and balanced resolution of the issues addressed therein. It provides for an appropriate mix of block energy purchases and load following, full-requirements 12 and 24-month contracts, designed to enhance rate stability for customers. It ensures that reconciliation adjustments of more than 5% of the average residential default service bill will be amortized over a minimum of six months. It further ensures that winners of the Company's default service solicitations or the capacity resources they rely upon will not be deemed to be receiving a state subsidy and therefore subject to the PJM MOPR [Minimum Offer Price Rule]. Finally, it provides a prudent approach for examining cost of service issues between residential and small commercial customers and determining whether any midcourse correction is needed for DSP IV.

OCA Supporting Statement at p. 14.

I agree. I must, however, temper that agreement because of the concerns and detailed criticisms expressed by the OCA and the OSBA with respect to the Pace Study. The public advocates were placed in a very difficult position in this case because of the initial deficiency of the Study, and their ability to review UGI's proposed DSP IV was significantly hampered by the unavailability of the assumptions, worksheets and calculations used by PACE in reaching the results of the Study. This problem should never have arisen given that UGI was on notice to provide this information after its DSP III proceeding. I share the concerns of the public advocates and would go a step further. If the methodology and calculations of a third-party study are represented as, "non-disclosable," due to proprietary concerns, then the study is not helpful to the pursuit of justice through the litigation and adjudicatory process. I would take the OCA's cautionary note in this regard one step further and opine that the study UGI Electric will submit by June 30, 2022 should include all assumptions, worksheets and calculations used in reaching the results of the study.

² This is not, of course, any conclusion with respect to the "reasonableness" of future prices in the PJM power pool.

The foregoing concern notwithstanding, the parties were ultimately able to settle this case with a result that is reasonable and in the public interest. The parties are commended in this regard, especially given the logistical difficulties parties face during the present pandemic.

Therefore, I recommend that the Commission grant the Joint Petition for Settlement and adopt the Joint Settlement without modification.

CONCLUSIONS OF LAW

1. The Commission has jurisdiction over the subject matter and the parties to this proceeding. 66 Pa.C.S. § 2807.

2. To determine whether the settlement should be approved, the Commission must decide whether the settlement promotes the public interest. *Pa. Pub. Util. Comm'n v. C.S. Water and Sewer Assocs.*, 74 Pa. PUC 767 (1991); *Pa. Pub. Util. Comm'n v. Philadelphia Elec. Co.*, 60 Pa. PUC 1 (1985).

3. No contract or arrangement providing for the furnishing of management, supervisory, construction, engineering, accounting, legal, financial, or similar services, and no contract or arrangement for the purchase, sale, lease, or exchange of any property, right, or thing or for the furnishing of any service, property, right or thing other than those above enumerated, made or entered into between a public utility and any affiliated interest shall be valid or effective unless and until such contract or arrangement has received the written approval of the Commission. 66 Pa.C.S § 2102(a).

4. The settlement rates, terms and conditions contained in the Joint Petition for Settlement of UGI's DSP IV at Docket No. P-2020-3019907 submitted by UGI, the Office of Consumer Advocate, and the Office of Small Business Advocate are just, reasonable and in the public interest.

5. The Revised DSP Program contained in the Joint Petition for Settlement at Docket No. P-2020-3019907 includes competitive procurement processes as required by the Public Utility Code and the regulations of the Commission.

6. The generation to be procured by UGI pursuant to the Revised DSP Program contained in the Joint Petition for Settlement at Docket No. P-2020-3019907 includes a prudent mix of spot market purchases, short-term contracts and long-term contracts as required by the Public Utility Code. 66 Pa.C.S. § 2807(e)(3.2).

7. The Revised DSP contained in the Joint Petition for Settlement at Docket No. P-2020-3019907 includes a prudent mix of supply resources that is designed to ensure adequate and reliable service at the least cost to customers over time in compliance with 66 Pa.C.S. § 2807(e)(3.4).

8. The Revised DSP Program contained in the Joint Petition for Settlement at Docket No. P-2020-3019907 includes prudent steps necessary to negotiate favorable generation supply contracts. 66 Pa.C.S. § 2807(e)(3.7).

9. The Revised DSP Program contained in the Joint Petition for Settlement at Docket No. P-2020-3019907 includes prudent steps necessary to obtain least cost generation supply contracts on a long-term, short term and spot market basis. 66 Pa.C.S. § 2807(e)(3.7).

10. The terms, conditions and rates for default service that will be produced by the tariffs contained in the Joint Settlement Petition are just and reasonable.

ORDER

THEREFORE,

IT IS RECOMMENDED:

1. That the rates, terms and conditions of service contained in the Joint Petition for Settlement of UGI Utilities, Inc. – Electric Division DSP IV, including affiliated interest transactions, at Docket Nos. P-2020-3019907 and G-2020-3019908 submitted by UGI Utilities, Inc. – Electric Division, the Office of Consumer Advocate, and the Office of Small Business Advocate are approved and adopted without modification;

2. That upon entry of the Commission Order approving the recommendation to adopt the Joint Petition for Settlement, UGI Utilities, Inc. – Electric Division be permitted to file a tariff and tariff supplement to become effective on one day’s notice after entry of the Commission’s final order;

3. That consistent with the Joint Stipulation for the Admission of Evidence, admitted into the record of this proceeding are:

(a) The Joint Petition for Settlement, including all appendices, and;

(b) UGI Testimony and Exhibits

(1) UGI Electric Exhibit No. 1 – UGI Electric’s Petition for Approval of a Default Service Plan for the Period of June 1, 2021 through May 31, 2025, including Appendices A through G.

(2) UGI Electric Statement No. 1 – Direct Testimony of Angelina M. Borelli, including UGI Electric Exhibit Nos. AMB-1, AMB-2(a) (CONFIDENTIAL), AMB-2(b) (CONFIDENTIAL), and AMB-3.

(3) UGI Electric Statement No. 2 – Direct testimony of Stephen F. Anzaldo, including UGI Electric Exhibit Nos. SFA-1 and SFA-2.

(4) UGI Electric Statement No. 1-R – Rebuttal Testimony of Angelina M. Borelli, including UGI Electric Exhibit No. AMB-1-R (CONFIDENTIAL).

(5) UGI Electric Statement No. 2-R – Rebuttal Testimony of Stephen F. Anzaldo.

(6) UGI Electric Statement No. 1-SR – Surrebuttal Testimony of Angelina M. Borelli.

(7) UGI Electric Statement No. 2-SR – Surrebuttal Testimony of Stephen F. Anzaldo.

(c) OCA Testimony and Exhibits

(1) OCA Statement No. 1 – Direct Testimony of Serhan Ogur, including Appendix A and OCA Exhibit SO-1.

(2) OCA Statement No. 1-R – Rebuttal Testimony of Serhan Ogur, including OCA Exhibits SO-1R and SO-2R.

(3) OCA Statement No. 1-S – Surrebuttal Testimony of Serhan Ogur, including OCA Exhibits SO-1S and SO-2S.

(d) OSBA Testimony and Exhibits

(1) OSBA Statement No. 1 – Direct Testimony of Robert D. Knecht, including OSBA Exhibits IEc-1 through IEc-3.

(2) OSBA Statement No. 1-R – Rebuttal Testimony of Robert D. Knecht, including OSBA Exhibits IEc-R1 and IEc-R2.

(3) OSBA Statement No. 1-S – Surrebuttal Testimony of Robert D. Knecht, including OSBA Exhibit IEc-S1.

4. That the Motion for Protective Order filed on July 15, 2020 by UGI at this docket is granted.

5. That those statements and exhibits marked CONFIDENTIAL are not to be included in the public record of this case; and

