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August 25, 2021

VIA ELECTRONIC FILING

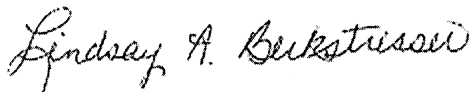
Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

**Re: Pennsylvania Public Utility Commission v. UGI Utilities, Inc. - Gas Division
Docket Nos. R-2021-3025652, et al.**

Dear Secretary Chiavetta:

Attached for filing is the Joint Petition for Settlement of Section 1307(f) Rate Investigation and the parties' Statements in Support of Settlement in the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,



Lindsay A. Berkstresser

LAB/kl
Attachments

cc: Honorable Dennis J. Buckley (*w/attachments*)
Certificate of Service

CERTIFICATE OF SERVICE

(Docket Nos. R-2021-3025652, et al.)

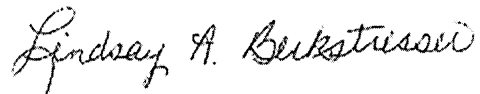
I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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Date: August 25, 2021

Lindsay A. Berkstresser

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission,	:	R-2021-3025652
Office of Consumer Advocate, And	:	C-2021-3025994
Office of Small Business Advocate	:	C-2021-3026377
	:	
v.	:	
	:	
UGI Utilities, Inc. – Gas Division	:	

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

TO ADMINISTRATIVE LAW JUDGE DENNIS J. BUCKLEY:

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 Dennis J. Buckley (“ALJ Buckley” 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, 2021, that implements, subject to updates and tariff modifications traditionally performed on December 1, the Purchased Gas Cost (“PGC”) rate of \$4.4594/Mcf; 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, 2021.

2. On April 30, 2021, 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 21, 2021, the OCA filed a Notice of Appearance, Formal Complaint, and Public Statement in the Company's PGC proceeding.

4. On May 24, 2021, I&E filed a Notice of Appearance.

5. On June 1, 2021, 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.

6. On June 8, 2021, the OSBA filed a Notice of Appearance, Formal Complaint, Public Statement, and Verification in this proceeding.

7. On June 11, 2021, ALJ Buckley held a prehearing conference, at which time a procedural schedule was adopted.

8. On June 18, 2021, a Motion for Protective Order was filed by the Company, which was granted by ALJ Order dated June 18, 2021.

9. In accordance with the procedural schedule, OCA, OSBA and I&E submitted written direct testimony and exhibits on July 6, 2021.

10. On July 23, 2021, the Company and I&E submitted written rebuttal testimony and exhibits.

11. On July 29, 2021, the Company, OCA, OSBA and I&E served surrebuttal testimony and exhibits.

12. As a result of settlement discussions held in this proceeding, and the efforts of the Joint Petitioners to examine the issues raised, a full settlement in principle was achieved prior to the date for the evidentiary hearing. On July 29, 2021, counsel for the Company advised the ALJ of the settlement in principle and requested that the scheduled evidentiary hearing be canceled and that the Joint Petitioners be permitted to admit their evidence by stipulation.

13. Thereafter, on July 29, 2021, the ALJ advised the Parties that the evidentiary hearing would be canceled, and that the Parties' written testimony and exhibits could be admitted into the record by stipulation. The ALJ also directed the Parties to file the Joint Petition For Settlement Of Section 1307(f) Rate Investigation and statements in support by the scheduled Reply Brief due date of August 25, 2021.

14. On August 13, 2021, the Joint Petitioners filed a Joint Stipulation for Admission of Evidence, with accompanying signed verifications of the sponsoring witnesses, to admit the testimony and exhibits into the record.

II. TERMS OF SETTLEMENT

A. DESIGN DAY

15. The Joint Petitioners agree that UGI Gas will be permitted to use a design day figure of 2.08 BCF, which includes 2.02 BCF of design cold firm requirements and 0.06 BCF

of capacity reserves for the Company’s firm core market (PGC and Choice Customer markets) needs.

B. UGIES CONTRACT CONSOLIDATION

16. The Joint Petitioners agree that UGI Gas will consolidate 12 existing contracts between UGI Gas and UGI Energy Services, LLC (“UGIES”) for a total quantity of 259,476 dth per day for the term of 2021 through 2036. The consolidation will result in the formation of three contracts based on the service type provided: 1) Day-Ahead Peaking; 2) Intra-Day Peaking; and 3) Annual Delivery Service. This is discussed fully at pages 25 to 29 of UGI Gas Statement No. 2, the Direct Testimony of Jesse R. Tyahla.

C. PEAK DAY CAPACITY SUPPLY ADDITIONS

17. The Joint Petitioners agree that in order to address the total peak day capacity supply shortfall needs, UGI Gas will accept the following proposals:

Source	Term	Maximum Daily Quantity (dth per day)
Mobile LNG - Supplier A (West Shore short term approach)	2021-2024	10,000
UGIES Offer I	2021-2024	15,891
Total		25,891

18. Specifically, UGI Gas will accept the Mobile liquefied natural gas (“LNG”) offer from Supplier A (received on June 29, 2021 in response to UGI Gas’s recent request for proposal (“RFP”)) for 10,000 dth per day in order to address a portion of the identified 25,891 dth per day capacity shortfall. This capacity will deliver directly to the West Shore of Harrisburg in order to address its specific capacity shortfall needs. The remainder of the 25,891 dth per day capacity shortfall will be addressed by accepting a reduced quantity of delivered Texas Eastern supply of

15,891 dth per day from UGIES. The term of these capacity contracts will be three years (2021-2024).¹

19. In addition, to address the long-term supply needs (2024 and beyond) related to the West Shore's system growth, the Company will accept UGIES Offer II for LNG service totaling 40,000 dth per day, to be provided by an LNG facility to be constructed, owned and operated by UGIES and located in the West Shore area. The LNG facility is expected to be in service by the 2024-2025 winter. This LNG service will be provided to the Company as discussed at pages 30 to 34 of UGI Gas Statement No. 2, the Direct Testimony of Jesse R. Tyahla and detailed in UGI Gas Exhibits UGI-JRT-8 and 9.

D. PURCHASE OF RENEWABLE NATURAL GAS (“RNG”) PILOT PROGRAM

20. The Joint Petitioners agree that UGI Gas will enter into a five-year contract to obtain 909 dth per day of RNG from the Archaea Energy (“Archaea”) facility as identified on pages 35-39 of UGI Gas Statement No. 2, the Direct Testimony of Jesse R. Tyahla.

21. As part of the proposed transaction, UGI Gas will undertake a five-year pilot program that will explore the ability to generate revenues through the sale of Renewable Identification Numbers (“RINs”) associated with the Archaea Contract. The pilot will focus on offsetting or lowering the cost premium of the gas purchased in the Archaea Contract by selling associated RINs and crediting net revenues (i.e., revenue remaining from RIN sales after fees are incurred to monetize the RINs) received from the sale of those RINs to the PGC.² Under the pilot,

¹ This quantity was reduced from the original UGIES Offer 1 of 33,362 per day in response to the February 2021 RFP as part of the normal bid refresh process. (UGI St. 2-R, pp. 2, 5).

² As discussed on page 25 of UGI Statement No. 2-R, the Rebuttal Testimony of Jesse R. Tyahla, the Company developed an initial analysis to show the revenue that would be generated through the sale of RINs. This analysis, assuming average market conditions experienced over the last five years, showed that PGC customers would pay no cost premium associated with the inclusion of RNG in the PGC portfolio, but would actually have achieved a net lower overall gas cost utilizing the RNG supply rather than traditional gas supply. Although this analysis relies on the

the PGC will be credited with either the first \$12.50/dth of net RIN sales revenue, or the full cost premium of RNG over the alternative non-RNG supply cost, whichever is lower. The RNG cost premium will be determined on a monthly basis as the difference between the RNG cost less the otherwise applicable gas commodity price of Inside FERC Index for Tennessee Gas Pipeline Zone 4-300 Leg. The Company shall be permitted to retain any net RIN sales revenues above this amount, and those net revenues will be split evenly between UGI Gas and Archaea pursuant to the five-year agreement between UGI Gas and Archaea. Such retained RINs or RIN sales revenues retained by the Company, if any, shall be considered below the line for ratemaking purposes.

22. In its next PGC filing, UGI Gas agrees to: (1) report on the daily quantities of RNG purchased; (2) identify the PGC rate impact of its RNG purchases; (3) identify the BTU content of its RNG purchases to the extent such data is available; and (4) report on the RIN sales activity, including volumes sold and prices obtained on a monthly basis.

23. Approval of the Company's proposal in this proceeding to increase the RNG gas supply portfolio percentage to 1.0% for the PGC year that begins December 1, 2022, and to 2.0% for the PGC year that begins December 1, 2023, or any other proposal to increase RNG gas supply, is deferred without prejudice and any such proposal to increase the amount of RNG gas supply will be evaluated in future PCG proceedings.

E. PEAKING CONTRACT RFP MODIFICATIONS

24. The Joint Petitioners agree that the Company will conduct a three-year pilot regarding the format of its peaking contract RFPs. The Company's bid form will clearly state that bids must include payment terms over both a four-month (December-March) and five-month (November-March) period. The Company will evaluate RFP responses in a manner which is

recent RIN market and provides no guarantee of future market conditions being at the same or higher levels, it demonstrates the significant cost premium offsets which may be achieved.

inclusive of projected PGC over/under collection and PGC interest impacts with regard to fixed charges and least cost procurement obligations. The Company will provide the evaluation in live Excel format. The Company will make the RFP responses available in future PGC proceedings to the statutory Parties and provide a recommendation based on the results of the pilot in the 2025 PGC proceeding.

III. STANDARDS AND FINDINGS

25. 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, 2021. The proposed rates are intended to become effective December 1, 2021.

A. HISTORIC RECONCILIATION PERIOD STANDARDS

26. With respect to UGI Gas's gas purchases and gas purchasing practices during the 12-month historic reconciliation period ending March 31, 2021, 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, 2021, 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 2:³

- 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, Sections 1, 2 and 5.
- g) Calculation of 2021 PGC Rates:
 - i) June 1, 2021, Filing, Schedule A – Computation of Purchased Gas Cost Rate effective December 1, 2021;
 - ii) June 1, 2021, Filing, Schedule B (page 1) – Development of Projected Cost of Gas (C-factor);

³ UGI Gas Exhibit 1 and 2 are fully described in the Joint Stipulation for Admission of Evidence, which was filed on August 13, 2021.

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

B. PROJECTED PERIOD FINDINGS

27. With respect to the 12-month period beginning December 1, 2021, 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, 2021, 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, 2021 through November 30, 2021 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.

28. If in an appropriate future proceeding, gas purchases and gas purchasing practices relating to the period December 1, 2021 through November 30, 2022 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, 2021, except as provided in Section II above.

29. The Joint Petitioners also agree that future examination of the gas costs relating to the period April 1, 2021 through November 30, 2021, 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

30. 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, 2021, 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.

31. 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.

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

33. 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.

34. 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.

35. 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.

36. 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, 2021.

37. 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 Dennis J. Buckley 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, 2021, 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, 2021; and

5. That the Commission mark closed its inquiry and investigation at Docket Nos. R-2021-3025652, C-2021-3025994, and C-2021-3026377.

Respectfully submitted,

Lindsay A. Berkstresser

Date: August 25, 2021

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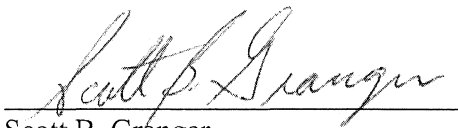
Respectfully submitted,

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Date: August 24, 2021

Attorney for Bureau of Investigation & Enforcement

/s/ Lauren Guerra

Date: August 25, 2021

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/s/ Steve C. Gray

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Date: 8/24/2021_____

Counsel for the Office of Small Business Advocate

Appendix A

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission,	:	Docket Nos. R-2021-3025652
Office of Consumer Advocate, and	:	C-2021-3025994
Office of Small Business Advocate	:	C-2021-3026377
	:	
v.	:	
	:	
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 DENNIS J. BUCKLEY:

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. The Joint Petitioners also filed multiple rounds of testimony, including the direct testimony of UGI Gas, the direct testimony of OCA, OSBA and I&E, the rebuttal testimony of UGI Gas and I&E, and the surrebuttal testimony of UGI Gas, OCA, OSBA, and I&E. In addition,

the Joint Petitioners participated in constructive settlement negotiations, which ultimately led to the Settlement.

The Settlement reflects a carefully balanced compromise of the interests of the Joint Petitioners to this proceeding. For the reasons set forth below, the Settlement is just and reasonable and should be approved in its entirety and without modification.

I. SETTLEMENT TERMS

A. DESIGN DAY

In the Company's direct testimony, UGI Gas identified that it projected a firm peak-day demand and reserve requirement of 2.08 BCF. (UGI Gas St. 2, p. 16). This peak-day demand reflected 2.02 BCF of design-cold firm requirements and 0.06 BCF of capacity reserve requirements. (UGI Gas St. 2, p. 16). 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 16 through 18.

No party challenged UGI Gas's design day needs as identified by the Company. In Settlement, the Joint Petitioners agreed to adopt the Company's projected design day figure as identified in the Company's direct testimony. (Settlement ¶ 15). Adopting UGI Gas's projected design day figure, which was unopposed by the parties to this proceeding, is in the public interest because it provides the Company with the capacity needed to respond to the needs of its core market customers on peak winter days in accordance with its obligations as the supplier of last resort. The design day figure agreed to by the Joint Petitioners is necessary for UGI Gas to ensure continuous, reliable service under design day conditions. (UGI Gas St. 2, pp. 6, 10-12). The Company's projected design day figure also accounts for the experienced growth of UGI Gas's core market customers, which UGI Gas anticipates will continue. If the Company did not include this expected customer growth, it would put the Company at risk of underestimating peak day

demand. (UGI Gas St. 2, p. 17). Therefore, this Settlement term is in the public interest and should be approved.

B. UGIES CONTRACT CONSOLIDATION

UGI Gas manages a gas supply portfolio comprised of contracts with several interstate pipeline, storage, and peaking suppliers. In January 2021, the Company issued a Request for Proposals (“RFP”) to replace three expiring contracts with its affiliate, UGI Energy Services, LLC (“UGIES”) totaling 91,200 dth Maximum Daily Quantity (“MDQ”), in an effort to secure lower priced service. (UGI St. 2, pp. 25-26). In response to the January 2021 RFP, the Company received one conforming offer and one non-conforming offer from UGIES. The conforming offer provided 91,200 dth per day of primary firm supplies for the term 2021 through 2036. The non-conforming offer was also for a term of 2021 through 2036. Both offers accepted the Company’s enhanced force majeure language and provided the Company with a right to extend the agreement upon expiration of the initial term. (UGI St. 2, p. 26). However, the nonconforming offer also included a proposal to consolidate twelve existing contacts between UGI Gas and UGIES based on the service type provided (Day-Ahead Peaking, Intra-Day Peaking, and Annual Delivery Service) for a total quantity of 259,476 dth per day, including the three contracts that were the subject of the RFPs (and which totaled 91,200 dth per day). (UGI St. 2, p. 26). The nonconforming offer provided a significantly lower overall rate than the conforming offer and the same level of service currently afforded to UGI Gas by each of the individual twelve existing contracts. The annual demand charge per dekatherm for the conforming offer was \$243.69 and the annual demand charge per dekatherm for the nonconforming offer was \$195.82. (UGI Gas St. 2, p. 26).

In direct testimony, UGI Gas proposed to accept the offer that would consolidate the twelve existing contracts listed on page 28 of Statement 2 as of October 31, 2021. (UGI Gas St. 2, pp. 27-28). No party opposed UGI Gas’s proposal. In Settlement, the Joint Petitioners agreed

that UGI Gas will consolidate the twelve existing contracts between UGI Gas and UGIES for a total quantity of 259,476 dth per day for the term of 2021 through 2036. The consolidation will result in the formation of three contracts based on the service type provided: 1) Day-Ahead Peaking; 2) Intra-Day Peaking; and 3) Annual Delivery Service. (Settlement ¶ 16).

Acceptance of UGIES's offer to consolidate the twelve existing service agreements through 2036 provides several benefits. The proposal provides a discount to the Company's existing agreements in the form of a lower annual reservation charge over the contract term, compared to current pricing, and removes uncertainty of GDP Deflator rates on renewals. (UGI Gas St. 2, p. 28). The consolidated service agreements continue to provide supply reliability by maintaining the right to extend the agreements upon expiration of the initial and subsequent terms. (UGI Gas St. 2, p. 28). Specifically, the consolidated offer will provide an estimated average cost savings of approximately \$2.7 million per year over a 15-year period, or \$40 million over the term of the agreements as compared to the rates presently charged under the existing agreements. This represents material savings for UGI Gas's core market customers. (UGI Gas St. 2, p. 29). Lastly, maintaining twelve contracts is much more administratively burdensome when compared to the proposed three contracts and will lessen the need for repetitive requests for proposals ("RFPs") for the same or similar services as the Company already receives few bidders for peaking or delivered supply services. (UGI Gas St. 2, pp. 28-29). For these reasons, the Settlement term accepting the proposed contract consolidation is in the public interest and should be approved.

C. PEAK DAY CAPACITY SUPPLY ADDITIONS

As part of its direct case, UGI Gas anticipated a 25,891 dth shortfall in its peak day capacity for the upcoming 2021-2022 winter. (UGI St 2-R, p. 4). A portion of this total peak day capacity shortfall is related to a location on UGI Gas's system serving the West Shore of Harrisburg ("West Shore"). The Company has experienced load growth in this part of its distribution system and has

also identified that there is limited availability for supplemental supplies at this time. This portion of the distribution system is primarily served by Columbia Gas Transmission, LLC (“Columbia”). In order to obtain additional gas supply from Columbia, an expansion project would be needed. In February of 2021, UGI Gas inquired about the possibility of an expansion project, however Columbia did not provide a viable expansion project to the Company. (UGI St. 2, p 30). As a result, UGI Gas conducted a detailed load analysis to specifically identify the magnitude of the undersupply in the West Shore area. (UGI Gas St. 2, p. 30). The results of the load analysis indicated consistent load growth and a need for additional supply entitlements in order to provide firm supplies to UGI Gas customers in this area. (UGI St. 2, p. 30). Specifically, the Company identified an immediate need for up to 5,910 dth per day on a peak day for the upcoming 2021-2022 winter. (UGI St. 2, pp. 31, 33).

The Company also assessed the long-term implications for this area to determine whether it was appropriate to explore long-term supply solutions, such as pipeline expansions or new construction projects. The Company applied a growth rate, consistent with the most recent three-year period, to the upcoming fifteen-year period. The results of that analysis showed a potential shortfall of 22,521 dth per day and 88,894 dth seasonally by the 2038-2039 winter. (UGI St. 2, p. 31).

Given the short-term and long-term needs in the West Shore area, the Company took steps to identify possible supply solutions. To address the short-term needs, the Company issued an RFP in June 2021 seeking a mobile liquified natural gas (“LNG”) service. (UGI St. 2-R, p. 3). As explained in UGI St. 2-R, the Company proposed to accept the offer from Mobile LNG Supplier A because it satisfied the requirements of the RFP and met the least cost procurement obligation on an annualized per dth basis. The offer provides up to 10,000 dth per day in supply directly

injected into the West Shore at an annual demand charge of \$784,500 and a total expected cost of \$4.31 million. (UGI St. 2-R, p. 4). The mobile LNG service will fully address the West Shore’s peak day supply shortfall needs beginning in winter 2021-2022 and continuing until the permanent LNG solution is constructed (described below as the “long-term” solution for the West Shore). While the 10,000 dth per day being provided more than satisfies the specific needs of the West Shore for the 2021-2022 season, it is beneficial because it provides additional flexibility to the UGI Gas distribution system. (UGI Gas St. 2-R, p. 4). Specifically, this LNG frees up a portion of existing interstate pipeline capacity into the West Shore so that adjacent segments of UGI Gas’s system can benefit by utilizing this excess pipeline capacity previously utilized for the West Shore. As a result of this flexibility, the excess supply provided by the mobile LNG short-term solution can be utilized, in part, to satisfy the total system shortfall of 25,981 dth per day. (UGI Gas St. 2-R, p. 4).

In the Settlement, the Joint Petitioners agreed that UGI Gas would accept the Mobile LNG offer from Supplier A for 10,000 dth per day for delivery at the West Shore. This addresses 10,000 dth per day of the identified 25,891 dth per day total system capacity shortfall, as well as the immediate needs of the West Shore. (Settlement ¶¶ 17, 18). The parties also agreed that in order to address the remaining total system shortfall of 15,891 dth per day, UGI Gas will accept a reduced quantity of delivered Texas Eastern supply of 15,891 dth per day from UGIES (i.e., “UGIES Offer 1”).¹ The term of these supply contracts will be three years (2021-2024). (Settlement ¶¶ 17, 18). Together, the offers for 10,000 dth per day of mobile LNG and 15,891 dth per day of supply provided by UGIES Offer 1 satisfy the total expected system shortfall identified by the Company.

¹ This quantity was reduced from the original UGIES Offer 1 of 33,362 per day in response to the February 2021 RFP as part of the normal bid refresh process. (UGI St. 2-R, pp. 2, 5).

Acceptance of these two offers selected by UGI Gas and agreed to by the Joint Petitioners is in the public interest because these offers meet the Company's least cost procurement obligation, while providing the necessary peak day capacity for UGI Gas. This peak capacity provides reliable and continuous service to UGI Gas's core market customers throughout the year and on peak day, consistent with its obligations as the supplier of last resort. Without the additional capacity provided for in the Settlement, UGI Gas is at risk for having insufficient capacity to meet the total peak day capacity needs on its system during the upcoming winter. (UGI Gas St. 2, p. 31).

While the mobile LNG offer described above fully addresses the immediate needs of the West Shore, a long-term solution is still needed. (UGI Gas St. 2-R, pp. 5-6). To address the long-term needs, the Company reviewed the proximity of the West Shore to other interstate pipeline options and developed potential expansion lateral design paths to connect the existing Company distribution system to these supply sources, as well as evaluating the increased capital costs associated with these options. (UGI Gas St. 2, p. 32). In addition, in April 2021, the Company issued an RFP for project proposals to support the long-term needs of the West Shore. (UGI Gas St. 2, p. 31).

After evaluating the viable options for addressing the long-term needs of the West Shore, which included building a lateral to the Texas Eastern pipeline system, expanding the current service with Columbia, or developing a source of localized supply (e.g., LNG or compressed natural gas ("CNG")), the Company proposed to accept the UGIES Offer II for LNG service for 40,000 dth per day.² UGIES Offer II involves the construction of a new LNG tank facility that will be owned by UGIES and is expected to be in service by winter 2024-2025. (UGI Gas St. 2, p. 33). This option not only meets the base requirements of the RFP, but it also offers intraday flexibility

² See UGI Gas St. 2, p. 33; Confidential UGI Gas Ex. JRT-9, p. 2.

that can assist the Company in managing hourly supply requirements. The LNG facility would be located in the West Shore area, and be owned and operated by UGIES, who will be responsible for all related costs and permits. (UGI Gas St. 2, p. 33). The expected cost to PGC customers would be approximately \$6.25 million per year.³ This cost would not be reflected in PGC rates until the in-service date, which is anticipated to be November 2024. (UGI Gas St. 2, p. 33).

No party opposed UGI Gas’s proposal to address the long-term needs of the West Shore. In the Settlement, the Joint Petitioners agreed that to address the West Shore’s long-term supply needs (2024 and beyond), UGI Gas will accept the UGIES Offer II for LNG service of 40,000 dth per day to be provided by an LNG facility to be constructed, owned and operated by UGIES and located in the West Shore area. (Settlement ¶ 19). This provision of the Settlement is in the public interest and should be approved because, in addition to providing a permanent long-term solution to the supply needs of the West Shore, there are many benefits associated with adding the proposed LNG facility. Adding LNG to the UGI Gas system will further diversify the supply options available to the Company. In addition, it will increase the Company’s flexibility to meet growing and changing supply needs on other parts of its service territory. (UGI Gas St. 2, pp. 33-34).

D. PURCHASE OF RENEWABLE NATURAL GAS (“RNG”) PILOT PROGRAM

In this proceeding, UGI Gas proposed to incorporate renewable natural gas (“RNG”) into its supply portfolio. UGI Gas is uniquely situated compared to other natural gas distribution companies in Pennsylvania because the Company will have an RNG facility, owned by Archaea Energy, LLC (“Archaea”), directly connected to its system beginning in the fall of 2021. (UGI Gas St. 2, p. 35). The direct connection will provide UGI Gas with access to RNG that does not

³ The total fixed reservation charge is \$9.56 million per year. However, a portion of this cost would be shared with UGI Gas’s Choice and Transportation customers. (UGI Gas St. 2, p. 33).

require any transportation while also providing environmental benefits to customers and local communities. (UGI St. 2, pp. 39-40).

Specifically, UGI Gas proposed in its direct testimony to incorporate a small amount of bundled RNG gas molecules with environmental attributes into its gas supply portfolio in a gradual manner. Specifically, UGI Gas proposed to source 0.5% of its total PGC supply from renewable sources beginning in the PGC year that commences on December 1, 2021, 1.0% for the PGC year that commences on December 1, 2022, and 2.0% for the PGC year that commences on December 1, 2023. (UGI Gas St. 2, p. 37). By way of background, in April 2021, UGI Gas conducted a Request for Information and RFP to determine what supply options were available that could be incorporated into the PGC supply portfolio. (UGI Gas St. 2, p. 37). The responses included two suppliers that were prepared to offer both RNG gas molecules and the associated environmental attributes within the next year. Subject to the Commission's approval in this proceeding, UGI Gas tentatively accepted the least-cost offer, which provided 909 dth per day of RNG gas molecules and the associated environmental attributes (i.e., Renewable Identification Numbers ("RINs")) at a price of \$15.00 per dth for a period of 15 years, adjusted annually for inflation. (UGI Gas St. 2, p. 39).

UGI Gas proposed to formally retire the environmental attributes. (UGI Gas St. 2, p. 38). Retiring the environmental attributes maximizes the environmental benefit associated with the use of RNG. (UGI Gas St. 2, p. 38). As UGI Gas explained in its direct case, procurement of RNG with environmental attributes produces value for the Company's customers by encouraging growth of a carbon reducing industry by lowering the barriers to entry, and over time, improving the price point of RNG. The Company's RNG strategy will also encourage direct connections with the UGI Gas system that will produce meaningful environmental improvements to those living within the

Company's service territory, as well as increasing the diversity of supply sources supporting the system. (UGI Gas St. 2, p. 38).

OCA, OSBA, and I&E all submitted testimony in response to the Company's RNG proposal. OCA supported UGI Gas's proposal to incorporate RNG into its supply portfolio as a prudent step toward reducing greenhouse gas emissions but recommended that the Company's proposal to increase the share of RNG on its system to 1.0% and to 2.0% be decided in future PGC proceedings where more details on the specific procurement transaction would be available. (OCA St. 1, pp. 6-7). OCA also recommended that the Company adhere to certain reporting requirements regarding RNG purchases. (OCA St. 1, p. 7). OSBA and I&E opposed the Company's RNG proposal primarily based on their concerns that the purchase of RNG, as proposed by UGI Gas in its direct case, would not be consistent with Company's least cost procurement obligation. (OSBA St. 1, p. 2; I&E St. 2, pp. 3-7). I&E recommended that if the Commission were to approve UGI Gas's RNG proposal, the Company should be required to (1) sell the associated RINs to offset the cost of RNG and (2) adhere to certain reporting requirements regarding RNG purchases. (I&E St. 2, p. 10).

In its rebuttal testimony, UGI Gas emphasized the importance of signaling to market participants that the Company is making a long-term commitment to procure RNG supply. (UGI St 2-R, p. 14). The Company explained the significant environmental benefits of RNG and why its proposal to purchase RNG as part of its supply portfolio should be approved considering all relevant factors, including reliability, safety, decarbonization, location, timing, and sustainability. (UGI Gas St. 2-R, pp. 14-15). UGI Gas also explained that it selected the least cost option amongst the RNG proposals received. (UGI Gas St. 2-R, p. 15). Further, UGI Gas explained that the Company did not include the sale of RINs as part of its proposal because selling the RINs would

effectively transfer the environmental benefits associated with the purchase of RNG to a party other than UGI Gas. When a Company uses RNG without selling the associated RINs, the environmental benefit of using RNG is maximized and retained by the Company as a documented greenhouse gas reduction benefit. (UGI Gas St. 2-R, p. 22). However, UGI Gas explained that if the Commission were to direct the Company to sell the RINs, the RIN sale revenue should be shared through the Company's existing Revenue Incentive Sharing Mechanism. (UGI Gas St. 2-R, p. 22).

The Company, I&E, OCA, and OSBA submitted surrebuttal testimony on the RNG proposal and issues raised concerning the potential sale of RINs. OCA expressed its view that it would not be necessary for UGI Gas to sell the RINs. (OCA St. 1-SR, pp. 3-4). OSBA proposed to modify the Company's suggested mechanism for sharing RIN sale revenues as described on pages 3-4 of OSBA St. 1-SR, but otherwise supported the Company's proposal to procure RNG and to sell the RINs. I&E proposed that the entire amount of any RIN sale revenue be credited to PGC customers. (I&E St. 2-SR, pp. 9-10). I&E also expressed its concern with committing to a 15-year contract term for RNG at a specific price. (I&E St. 2-SR, p. 5).

The parties engaged in extensive settlement discussions regarding the RNG proposal, and the Settlement reflects a compromise of the Joint Petitioners' positions on these issues. The Settlement adopts the Company's RNG proposal with several modifications. Initially, the Settlement provides that UGI Gas will enter a five-year contract to obtain 909 dth per day of RNG from Archaea, as identified on pages 35-39 of UGI Gas Statement No. 2. (Settlement ¶ 20).

Approval of UGI Gas's RNG proposal as modified by the Settlement is in the public interest because it provides several benefits to the customers and the local communities located in UGI Gas's service territory, as well as to the Commonwealth of Pennsylvania. RNG has well-

known and documented environmental benefits as recognized by the Environmental Protection Agency (“EPA”). The EPA has identified RNG as reducing greenhouse gas emissions because RNG projects capture and recover methane that will already be produced and otherwise released into the atmosphere as climate pollutants. (UGI Gas St. 2, p. 16). Methane has a global warming potential more than 25 times greater than carbon dioxide and a relatively short atmospheric life; so reducing these emissions can achieve near-term beneficial impacts in mitigating global climate change. (UGI Gas St. 2, p. 16). RNG also produces local air quality benefits due to the reduction of landfill gas emissions into nearby communities. (UGI Gas No. 2, p. 16).

In addition to landfills, RNG has the potential to be sourced from dairies, wastewater treatment plants, and food waste plants. (UGI Gas St. 2, p. 17). These sources serve as a means to reduce greenhouse gas emissions while allowing local businesses and communities to reap the economic benefits of utilities sourcing gas locally. Pennsylvania, and UGI Gas’s service territory specifically, is full of these local sources of sustainable, environmentally friendly gas production. (UGI Gas St. 2, p. 17). In a recent Statement on UGI Gas’s proposed Tariff Supplement at Docket No. R-2021-3026078, Chairman Gladys Brown Dutrieuille expressed support for the introduction of RNG on UGI Gas’s system, noting the potential benefits to commercial and agricultural entities in the Commonwealth. *See UGI Utilities, Inc. – Gas Division Supplement No. 21 to Tariff UGI Gas Pa. P.U.C. No. 7*, Docket No. R-2021-3026078 (August 5, 2021 Statement).

In addition to the quantifiable environmental benefits recognized by the EPA, incorporating RNG into the Company’s supply portfolio will provide UGI Gas with a potential portfolio option that serves as a means to reduce or mitigate the impacts of increased capital expenditures and new regulatory requirements on interstate pipelines. As the cost of interstate pipeline transportation continues to increase, while pipelines modernize their systems, investing

in locally sourced RNG now may provide a growing economic benefit over of the life of the supply agreement. (UGI Gas St. 2, p. 18).

To address I&E's and OSBA's concerns regarding the cost of RNG, as well as I&E's concerns regarding the length of the contract term, UGI Gas agreed to a transaction that would provide 909 dth per day of RNG for \$15.00 per dth for a 5-year contract period (as opposed to the original 15-year contract period), with a credit to the PGC for the sale of RINs based on the offsetting cost of gas supply, as described in the Company's rebuttal testimony. (UGI Gas St. 2-R, pp. 25-26). In order to provide the shorter contract, net RIN sale revenues above the amount to be credited to the PGC will be split evenly between UGI Gas and Archaea.

The Settlement provides that UGI Gas will undertake a 5-year pilot program that will explore the ability to generate revenue through the sale of RINs associated with the Archaea contract. (Settlement ¶ 21). The pilot will focus on offsetting or lowering the cost premium of the gas purchased in the Archaea contract by selling associated RINs and crediting net revenues (i.e., revenue remaining from RIN sales after fees are incurred to monetize the RINs) received from the sale of those RINs to the PGC. Under the pilot, the PGC will be credited with either the first \$12.50 per dth of net RIN sales revenue, or the full cost premium of RNG over the alternative non-RNG supply cost, whichever is lower. (Settlement ¶ 21). The RNG cost premium will be determined on a monthly basis as the difference between the RNG cost less the otherwise applicable gas commodity price of Inside FERC Index for Tennessee Gas Pipeline Zone 4-300 Leg. (Settlement ¶ 21).

The Settlement provision regarding RIN sales is in the public interest because it provides an opportunity for UGI Gas to sell the RINs associated with the purchase of RNG and credit a portion of those revenues to the PGC to offset the cost of RNG for PGC customers. As discussed

on page 25 of UGI Statement No. 2-R, the Company developed an initial analysis to show the revenue that could be generated through the sale of RINs. This analysis, assuming average market conditions experienced over the last 5 years, showed that PGC customers would pay no cost premium associated with the inclusion of RNG in the PGC portfolio. Although this analysis relies on the recent RIN market and provides no guarantee of future market conditions being at the same or higher levels, it demonstrates the significant cost premium offsets that may be achieved. (UGI Gas St. 2-R, 25).

In response to OCA's and I&E's recommendations that the Company adhere to certain reporting requirements regarding the RNG proposal, the Joint Petitioners agreed as part of the Settlement that, in its next PGC filing, UGI Gas will (1) report on the daily quantities of RNG purchased; (2) identify the PGC rate impact of its RNG purchases; (3) identify the BTU content of its RNG purchases to the extent such data is available; and (4) report on the RIN sales activity, including volumes sold and prices obtained on a monthly basis. (Settlement ¶ 22). These reporting requirements are in the public interest because they will provide interested parties and the Commission with valuable information to assess the effectiveness of UGI Gas's RNG proposal in future PGC cases.

Finally, the Joint Petitioners agreed in Settlement that the Company would defer without prejudice its proposal to increase the amount of RNG procured in future years. (Settlement ¶ 23). Given the totality of Settlement provisions on the Company's RNG proposal, the Settlement's treatment of the purchase of RNG should be approved as it reflects a reasonable compromise of the parties' positions on the RNG proposal and maintains the right to propose an increase in RNG gas supply in future proceedings and based on changing market circumstances. Parties will have

an opportunity to evaluate and present testimony on any proposal to increase RNG gas supply that is made in a future proceeding.

For the reasons explained above, the Settlement provisions adopting the RNG proposal as modified by the Settlement are in the public interest and should be approved.

E. PEAKING CONTRACT RFP MODIFICATIONS

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. (UGI Gas St. No. 2-R p. 7). 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. 7).

The issue of payment terms for the Company's peaking contracts has been addressed in UGI Gas's three most recent PGC proceedings. 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. (UGI Gas St. No. 2-R p. 8). In UGI Gas's 2020 PGC proceeding, the parties agreed that UGI Gas would continue to provide a modified RFP based on the inclusion and exclusion of a November payment term. The Company also committed to evaluating RFP responses in a manner that is inclusive of projected PGC over/under collection and PGC interest impacts with regard to fixed charges. (UGI Gas St. No. 2-R pp. 8-9). The Company complied with these Settlement obligations. (UGI Gas St. No. 2-R pp. 8-9).

In this proceeding, I&E witness Christopher Keller recommended that the Company modify its payment schedules for its peaking service contracts to remove November payments.

(I&E St. No. 1, p. 9). According to Mr. Keller, the Company's usage data for November shows that the usage levels are too low to justify peaking services that extend to the month of November. (I&E St. No. 1, pp. 5-6). Mr. Keller argued that a payment for peak winter usage coverage in November is not appropriate because it results in an under collection, which must eventually be recovered in the E-factor with associated interest due from ratepayers. (I&E St. No. 1, pp. 5-6). Therefore, Mr. Keller recommended removing the November payment for peaking service contracts and spreading the payments over four months (December through March). (I&E St. No. 1, p. 9).

In response to Mr. Keller's proposal, UGI Gas explained that in light of the Company's recent experience with the 2021 RFP, the Company supports using the same peaking RFP process that was agreed upon in the 2019 and 2020 PGC settlements for any RFPs the Company may issue on a prospective basis. (UGI Gas St. No. 2-R, p. 12). In response to the Company's January 2021 Peaking RFP, the Company received offers that included four-month payment terms and offers that included five-month payment terms. The Company has selected a peaking contract offer with a four-month payment term when it is cost effective to do so. (UGI Gas St. 2-R, pp. 9-10). As UGI Gas explained, requiring only a four-month payment term could increase costs because suppliers providing peaking service may charge a premium for payment terms over four months rather than five, which could adversely impact costs to the PGC. Without the option of having five-month payment terms (November – March), the Company and customers would be placed at the disadvantage of not knowing if cheaper prices could be obtained by paying for the peaking services over five months. (UGI Gas St. 2-R, pp. 10-11).

The Settlement provides that the Company will conduct a three-year pilot regarding the format of its peaking contract RFPs. (Settlement ¶ 24). The Company's bid form will clearly state

that bids must include payment terms over both a four-month (December-March) and five-month (November-March) period. (Settlement ¶ 24). The Company will evaluate RFP responses in a manner inclusive of projected PGC over/under collection and PGC interest impacts with regard to fixed charges and least cost procurement obligations. (Settlement ¶ 24). The Company will provide the evaluation in live Excel format. (Settlement ¶ 24). The Company will make the RFP responses available in future PGC proceedings to the statutory Parties and provide a recommendation based on the results of the pilot in the 2025 PGC proceeding. (Settlement ¶ 24).

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 allow UGI Gas to select the contract that provides the most favorable terms for customers. 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, pp. 10-11). 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. 9-10). In this way, the pilot 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. The pilot will also give the Company a historic baseline for establishing a permanent practice as part of its 2025 PGC proceeding. Thus, this Settlement provision is reasonable, in the public interest and, should be approved.

II. CONCLUSION

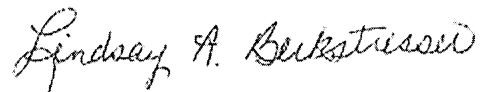
As explained above, the Settlement is in the public interest and should be approved. The Settlement was achieved only after considerable investigation of the Company's gas procurement

practices, through both discovery and submission of testimony by all of the parties to this proceeding. 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. To the extent that a term of the Settlement resolved a disputed issue amongst the parties, it did so fairly and without the expense and uncertainty associated with litigation. UGI Gas accordingly fully supports the Settlement and respectfully requests that Administrative Law Judge Dennis J. Buckley and the Commission approve the Settlement without modification.

Respectfully submitted,



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Date: August 25, 2021

Appendix B

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2021-3025652
	:	
UGI Utilities, Inc. - Gas Division	:	
Purchased Gas Costs	:	

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

TO: ADMINISTRATIVE LAW JUDGE DENNIS J. BUCKLEY:

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 Gas” “UGI” 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 2021 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 Dennis J. Buckley (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 its three natural gas distribution companies: (1) UGI Utilities Inc., - Gas Division (now South Rate District); (2) UGI Penn Natural Gas, Inc. (now North Rate District); and, (3) UGI Central Penn Gas, Inc. (now Central Rate District). Recently, 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, and established three rate districts.

2. On April 30, 2021, 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 ("PGC") tariffs.

3. On May 21, 2021 the OCA filed a Notice of Appearance, a Formal Complaint, and a Public Statements.

4. On May 24, 2021, I&E filed its Notice of Appearance in this PGC proceeding.

5. On June 1, 2021, 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, 2021) and its supporting written direct testimony and supporting exhibits.

6. On June 8, 2021, the OSBA filed its Notice of Appearance.

7. On June 11, 2021, ALJ Buckley 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 five (5) pieces of testimony and accompanying exhibits from one (2) I&E witness addressing the subjects of C-factor quarterly adjustments; E-factor reconciliation; quarterly PGC rate changes; peak service

contract payment schedule; and, the proposal to purchase and incorporate renewable natural gas:

- I&E Statement No. 1 (PROPRIETARY and Non-Proprietary) and I&E Exhibit No. 1 (PROPRIETARY and Non-Proprietary), the Direct Testimony and supporting Exhibit of Christopher Keller;
- I&E Statement No. 1-SR and I&E Exhibit No. 1-SR, the Surrebuttal Testimony and supporting Exhibit of Christopher Keller;
- I&E Statement No. 2 and I&E Exhibit No. 2, the Direct Testimony and supporting Exhibit of Ethan Cline;
- I&E Statement No. 2-R, the Rebuttal Testimony of Ethan Cline; and,
- I&E Statement No. 2-SR, the Surrebuttal Testimony of Ethan Cline.

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 July 30, 2021 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

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

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

A. 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 2.08 BCF, which includes 2.02 BCF of design cold firm requirements and 0.06 BCF of capacity reserves, for the Company’s firm core market needs (PGC and Choice Customer markets).

UGI Gas witness Jesse Tyahla detailed the Company’s calculation of the Company’s projected firm peak-day demand for the upcoming 2021-2022 winter season.³ Briefly, UGI Gas explained that it plans to meet the anticipated peak day demand of its Core Market customers and firm transportation customers (during the 2021-2022 winter) using the design cold temperatures that were approved as part of the Company’s prior

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

³ UGI St. No. 2, pp. 16-18.

PGC case settlements at Docket Nos. R-00072335, R-00072334, and R-2009-2105909 for the former South, North, and Central Rate Districts, respectively.⁴

I&E technical staff analyzed the Company's as-filed design day proposal and the supporting testimony. However, I&E did not submit testimony regarding the design day figures. 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.

B. UGI Energy Services ("UGIES") Contract Consolidation (Joint Petition ¶ 16).

In the Settlement, UGI and the Parties agree, UGI Gas will consolidate 12 existing contracts between UGI Gas and UGIES for a total quantity of 259,476 dth per day for the term of 2021 through 2036. The consolidation will result in the formation of 3 contracts based on the service type provided: 1) Day-Ahead Peaking; 2) Intra-Day Peaking; and 3) Annual Delivery Service.⁵

UGI Gas witness Jesse Tyahla detailed the Company's process for managing their supply portfolio using a number of contracts with several interstate pipeline, storage, and peaking suppliers.⁶ As UGI explained, typically, the Company extends these agreements when it is unable to secure a lower priced alternate service.⁷ The Company becomes

⁴ *Id.*, p. 16.

⁵ UGI Gas St. No. 2, pp. 25-29.

⁶ *Id.*

⁷ *Id.*, p. 25.

aware of any existing alternate services from information received during its annual RFP process (issued in January 2021 this year), participation in recent pipeline expansion projects, and discussions with interstate pipelines about potential new expansion projects.⁸ The Company cautioned, however, there is a risk that a lower cost alternative service could become available when the Company's current or future terms expire.⁹ Noting further, that over the last five years, there has been a low level of participation in the Company's RFPs, few pipeline expansions projects, escalation of proposed pipeline expansion project costs, uncertainty associated with pipeline expansion construction and an increase in the frequency of rate increases on the interstate pipelines.¹⁰ Therefore, the Company proposed to accept the offer from UGIES as the offer insulates the PGC from other price or performance risks.¹¹

I&E did not submit testimony regarding the UGIES contract consolidation. Nevertheless, I&E technical staff analyzed the claims made by the Company and the testimony and exhibits presented. 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.

⁸ *Id.*

⁹ *Id.*, p. 29.

¹⁰ *Id.*

¹¹ *Id.*

C. Peak Day Capacity Supply Additions (Joint Petition ¶¶ 17-19).

In the Settlement, UGI and the Parties agree, that to address the total peak day capacity supply shortfall needs, UGI Gas will accept the following proposals:

Source	Term	Maximum Daily Quantity (dth per day)
Mobile LNG - Supplier A (West Shore short term approach)	2021-2024	10,000
UGIES Offer I	2021-2024	15,891
Total		25,891

Specifically, UGI Gas will accept the Mobile LNG offer from Supplier A (received on June 29, 2021 in response to UGI Gas’s recent RFP) for 10,000 dth per day in order to address 10,000 dth per day of the identified 25,891 dth per day capacity shortfall. This capacity will deliver directly to the West Shore location to address its specific capacity shortfall needs. The remainder of the 25,891 dth per day capacity shortfall will be addressed by accepting a reduced quantity of delivered Texas Eastern supply of 15,891 dth per day from UGIES. The term of these capacity contracts will be three years (2021-2024).

In addition, to address the long-term needs (2024 and beyond) related to the West Shore’s system growth, the Company will accept UGIES Offer II for LNG service of 40,000 dth per day, to be provided by an LNG facility to be constructed, owned and operated by UGIES and located in the West Shore area. The LNG facility is expected to

be in service by the 2024-2025 winter and will provide LNG service to the Company as described in UGI's direct testimony.¹²

UGI Gas witness Jesse Tyahla testified that UGI has identified the West Shore of Harrisburg area within its distribution system as having limited availability for supplemental supplies from sources other than the Columbia Gas Pipeline.¹³ Stating further that expansion opportunities from Columbia are limited and Columbia has not yet provided a viable expansion project to the Company after a request by UGI Gas was made in February 2021 for evaluation.¹⁴ However, UGI witness Tyahla cautioned, this portion of the distribution system continues to expand, and UGI Gas projects that the area will be undersupplied if it does not take any action.¹⁵ Therefore, UGI advised in order to meet customer growth and maintain reliability standards, the Company is pursuing projects dedicated to West Shore portion of the UGI Gas distribution system.¹⁶ Finally, UGI discussed options to address immediate peak day needs; long term solutions; and the LNG facility as a more permanent solution.¹⁷

I&E did not submit testimony regarding the potential peak day capacity supply shortfalls and UGI's proposed LNG service facility solution. I&E technical staff did, however, fully analyzed the Company's proposal. I&E supports this settled upon term as a full and fair compromise that provides regulatory certainty and a resolution of this

¹² UGI St. No. 2, pp. 30-34. *See also* UGI Exh. JRT-8 and 9.

¹³ *Id.*, p. 30.

¹⁴ *Id.*

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ *Id.*, pp. 31-34.

issue; all of which facilitates the Commission's stated preference favoring negotiated settlements as in the public interest. I&E believes the agreed upon Settlement terms reflect an amicable agreement among the parties.

**D. Purchase of Renewable Gas ("RNG") Pilot Program
(Joint Petition ¶¶ 20-23).**

In the Settlement, the Parties agree that UGI Gas can enter into a five-year contract to obtain 909 dth per day of RNG from the Archaea facility as identified on page 39 of UGI Statement No. 2, the Direct Testimony of Jesse R. Tyahla.

UGI Gas will undertake a five-year pilot program that will explore the ability to generate revenues through the sale of RINs associated with the Archaea Contract. The pilot will focus on offsetting or lowering the cost premium of the gas purchased in the Archaea Contract by selling associated RINs and crediting net revenues (i.e., revenue remaining from RIN sales after fees incurred to monetize the RINs) received from the sale of those RINs to the PGC.¹⁸ Under the pilot, the PGC will be credited with either the first \$12.50/dth of net RIN sales revenue, or the full cost premium of RNG over the alternative non-RNG supply cost as described in Mr. Tyahla's testimony, whichever is lower. The RNG cost premium will be determined on a monthly basis as the difference between the RNG cost less the otherwise applicable gas commodity price of Inside FERC Index for Tennessee Gas Pipeline Zone 4-300 Leg. The Company shall be permitted to

¹⁸ As discussed on page 25 of UGI Statement No. 2-R, the Rebuttal Testimony of Jesse R. Tyahla, the Company developed an initial analysis to show the revenue that would be generated through the sale of RINs. This analysis, assuming average market conditions experienced over the last five years, showed that PGC customers would pay no cost premium associated with the inclusion of RNG in the PGC portfolio, but would actually have achieved a net lower overall gas cost utilizing the RNG supply rather than traditional gas supply. Although this analysis relies on the recent RIN market and provides no guarantee of future market conditions being at the same or higher levels, it demonstrates the significant cost premium offsets which may be achieved.

retain any net RIN sales revenues above this amount, and those net revenues will be shared with Archaea pursuant to the five-year agreement between UGI Gas and Archaea. Such retained RINs or RIN sales revenues retained by the Company, if any, shall be considered below the line for ratemaking purposes.

In its next PGC filing, UGI Gas agrees to: (1) report on the daily quantities of RNG purchased; (2) identify the PGC rate impact of its RNG purchases; and (3) identify the BTU content of its RNG purchases to the extent such data is available; and (4) report on the RIN sales activity, including volumes sold and prices obtained on a monthly basis.

Approval of the Company's proposal in this proceeding to increase the RNG gas supply portfolio percentage to 1.0% for the PGC year that begins December 1, 2022, and to 2.0% for the PGC year that begins December 1, 2023, or any other proposal to increase RNG gas supply, is deferred without prejudice and will be evaluated in future PCG proceedings.

To recap, in its filing, UGI presented a proposal to purchase RNG, a biogas that has been updated to a quality similar to fossil natural gas and has a methane concentration of greater than 90%, and incorporate a small amount of RNG into its gas supply portfolio beginning in the upcoming PGC year, and to gradually increase the amount of RNG in its system over the next three years.¹⁹ UGI stated that it:

... is in the process of preparing for its first direct interconnection with an RNG developer, Archaea Energy. Archaea Energy is an emerging leader in developing RNG projects and is currently in the process of developing the largest RNG facility in the world within UGI Gas's service territory.

¹⁹ UGI St. No. 2, pp. 34-35.

The Archaea project will convert biogas generated by the Keystone Landfill, located in Dunmore, Pennsylvania, into RNG. The facility will be interconnected with the UGI Gas distribution system in Dunmore and will ultimately produce up to 16,000 MMBtu/day of RNG. The Company anticipates that the interconnection will be operational by Fall of 2021.²⁰

Further, UGI proposed to incorporate a small amount of RNG into its gas supply portfolio beginning in the upcoming PGC year, and to gradually increase the amount of RNG in its system over the next three years.²¹ UGI proposed to source 0.5% of its PGC gas supply portfolio, or approximately 332,000 Dth/year, from renewable sources beginning in the PGC year that commences on December 1, 2021.²² The Company also proposed to expand the amount of RNG in its supply portfolio over the following two years, increasing to 1.0%, or approximately 663,500 Dth/year, for the PGC year that commences on December 1, 2022, and to 2.0% or approximately 1,327,000 Dth/year, for the PGC year that commences on December 1, 2023.²³ UGI then revealed that it had accepted an offer pending Commission approval of the proposal for 909 Dth per day of RNG gas molecules and the alleged associated environmental attributes at a price of \$15 per Dth for a period of 15 years with the price of the RNG to be adjusted annually for inflation.²⁴

In response, I&E expressed concerns and submitted extensive testimony regarding UGI's RNG proposal.²⁵ First, I&E expressed concern that the Company's goals and

²⁰ *Id.*, p. 35.

²¹ *Id.*, p. 37.

²² *Id.*

²³ *Id.*

²⁴ *Id.*, p. 39.

²⁵ *See* I&E St. No. 2, pp. 4-10; I&E St. No. 2-R, pp. 3-5; I&E St, No. 2-SR, pp. 2-11.

purchasing plan for the program are vague and insufficient to support the program.²⁶

Additionally, I&E proffered the RNG program, as proposed, may not conform to a least cost gas procurement policy.²⁷ More specifically, I&E argued the cost of the 909 Dth RNG purchase is too high to justify the UGI RNG proposal at this time.²⁸ Finally, I&E expressed concern that the RNG program may have a detrimental impact to low-income customers.²⁹

In the alternative, should the Commission choose approve the RNG proposal, I&E recommended that the Company provide a summary of the RNG program in future PGC cases including the contracts, the volumes purchased, and costs incurred.³⁰ Further, I&E recommended the Company sell all environmental credits or receive the credit from the producer to offset the high cost of the RNG program.³¹

OCA witness Jerome Meirzwa also expressed concerns.³² Mr. Meirzwa, while recommending that the proposed RNG program be approved, questioned why UGI Gas was not proposing to sell “Environmental Attributes known as Renewable Identification Numbers” (RINs) and crediting PGC customers with the revenues received from those sales.³³

²⁶ I&E St. No. 2, pp. 4-5.

²⁷ *Id.*, pp. 5-7.

²⁸ *Id.*, pp. 5-6.

²⁹ *Id.*, pp. 8-10.

³⁰ *Id.*, p. 10.

³¹ *Id.* See also, I&E St. No. 2-SR, pp. 9-11.

³² OCA St. No. 1, pp. 3-5.

³³ *Id.*, p. 3.

The Company addressed the RNG and the RINs issue in its rebuttal testimony.³⁴ The Company argued that there has been growing pressure in recent years from the investor market relating to the inclusion of sustainable practices, stating “within the energy and utility sector, investors have shown an interest in seeing companies responsibly incorporate renewable energy elements into their portfolios.”³⁵ The Company added, in order for UGI Gas to support and attract ongoing investor interest, it must look for opportunities to include renewable resources into its portfolio and concluded that all else being equal, this will assist the Company in continuing to maintain a competitive cost of capital, which the Commission has consistently recognized produces significant benefits to the Company’s customers.³⁶

Further, the Company continued to argue that the RNG proposal should be approved with the 15-year contract without requiring the sale of the RINs.³⁷ Nevertheless, the Company presented testimony and developed an initial analysis to show the revenue that would be generated through the sale of RINs, which is presented on exhibit JRT-5R.³⁸ JRT-5R shows that, assuming average market conditions experienced over the last five years, PGC customers would not only pay no cost premium associated with the inclusion of RNG in the PGC portfolio, but would actually have achieved a net lower overall gas cost utilizing the RNG supply rather than traditional gas supply.³⁹

³⁴ UGI St. No. 2-R, pp. 21-28.

³⁵ *Id.*, p. 23.

³⁶ *Id.*

³⁷ *Id.*, pp. 17-18.

³⁸ *Id.*, pp. 25-26, *citing* UGI Exh. JRT-5R.

³⁹ *Id.*

While this analysis relies on the recent RIN market and there is no guarantee of future market conditions being at the same or higher levels, it does demonstrate the significant cost premium offsets which may be achieved.⁴⁰ The results of the Company's analysis indicate that by selling the RINs, it is likely that UGI Gas will significantly reduce the cost premium associated with RNG, and in many cases will likely more than entirely offset the cost impact of the RNG contract.⁴¹

Finally, in response to UGI continued argument in rebuttal that the RNG proposal should be approved with the 15-year contract without requiring the sale of the RINs, I&E reiterated in surrebuttal that establishing a program with specific volumes does not allow the flexibility needed for UGI Gas to purchase least cost gas.⁴² Specifically, I&E noted UGI Gas' proposal to lock into a long-term 15-year contract completely negates its ability to react to any potential reduction in the cost of RNG as this form of gas becomes more available.⁴³

Ultimately, after a full and complete review of the testimony and exhibits submitted by the Parties; I&E supports the settled upon term as a full and fair compromise that provides regulatory certainty and a resolution of this issue. Further, the RNG settlement terms represent a compromise with regard to the length of the RNG contract (reduced from 15 to 5 years) and the selling of the RINs to offset the higher cost of the RNG gas. I&E recognizes that these settlement terms are the result of

⁴⁰ *Id.*

⁴¹ *Id.*, p. 26.

⁴² I&E St. No. 2-SR, pp. 4-6.

⁴³ *Id.*

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 and provides the parties with a level of regulatory certainty, all of which facilitates the Commission's stated preference favoring negotiated settlements as in the public interest.

E. Peaking Contract RFP Modifications (Joint Petition ¶ 24).

In the Settlement, UGI and the Parties agree, the Company will conduct a three-year pilot regarding the format of its peaking contract Requests for Proposals ("RFPs"). The Company's bid form will clearly state that bids must include payment terms over both a four-month (December-March) and five-month (November-March) period. 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 and least cost procurement obligations. The Company will provide the evaluation in live Excel format. The Company will make the RFP responses available in future PGC proceedings to the statutory Parties and provide a recommendation based on the results of the pilot in the 2025 PGC proceeding.

I&E submitted testimony regarding the payment terms specified in UGI's RFPs for winter peak needs.⁴⁴ I&E again noted that in the present filing the November 2019 actual results reflected an under collection of \$10,909,591.⁴⁵ I&E continues to

⁴⁴ See I&E St. No. 1, pp. 5-9; I&E St. No. 1-SR, pp. 2-10.

⁴⁵ I&E ST. No. 1, p. 5.

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.⁴⁶

Nevertheless, after a full and complete review of the testimony and exhibits submitted by the Parties and extensive negotiations; I&E supports the settled upon terms as a full and fair compromise that provide regulatory certainty and a resolution of this issue moving forward. I&E emphasizes 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. STANDARDS AND FINDINGS

A. Historic Reconciliation Period (Joint Petition ¶ 26).

In the Settlement, with respect to UGI Gas's gas purchases and gas purchasing practices during the 12-month historic reconciliation period ending March 31, 2021, 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.

⁴⁶ See I&E St. No. 1, p. 9; I&E St. No. 1-SR, p. 10.

I&E technical staff fully analyzed the Company's filing, including all testimony and exhibits. 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.

B. Projected Period (Joint Petition ¶¶ 27-29).

In the Settlement, with respect to the 12-month period beginning December 1, 2021, 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, 2021, are made solely for the purpose of setting prospective rates and shall be subject to further review in an appropriate future proceeding.

Also, the Joint Petitioners agree that future examination of the gas costs relating to the period April 1, 2021 through November 30, 2021, 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 in the Joint Petition.

I&E technical staff fully analyzed the Company's filing, including all testimony and exhibits. 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.

IV. GENERAL PROVISIONS / THE SETTLEMENT IS IN THE PUBLIC INTEREST (Joint Petition ¶¶ 30-37)

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 Buckley 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 Buckley 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 Dennis J. Buckley recommends, and the Commission approve, the terms and conditions contained in the Settlement without modification.

Respectfully submitted,



Scott B. Granger
Prosecutor
Attorney ID No. 63641

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

Dated: August 25, 2021

Appendix C

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2021-3025652
	:	
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**

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 against the annual 66 Pa. C.S. § 1307(f) Purchased Gas Cost (“PGC”) filing of UGI Utilities, Inc. - Gas Division (“UGI Gas” or the “Company”) on June 8, 2021.

The OSBA actively 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*.

The Joint Petition

The *Joint Petition* sets forth a list of issues that were resolved through the negotiation process. The following issue were of particular significance to the OSBA when it concluded that the *Joint Petition* was in the best interests of the Company's small business customers.

Renewable Natural Gas

OSBA witness Robert D. Knecht explained the UGI Gas proposal, as follows:

In its filing in this proceeding, the Company proposed to incorporate the purchase of renewable natural gas ('RNG') into its purchased gas cost ('PGC') supply portfolio, beginning with a 15-year contract with Archaea Energy for 909 Dth/day of non-firm supplies at a price of \$15.00 per Dth.

That price far exceeds the cost for traditional gas supplies.

The Company further proposed to expand RNG purchases to 1.0 percent of utility supplies in the 2023 PGC year and 2.0 percent of utility gas supplies in the 2024 PGC year.

The Company also indicated that it would retire, rather than sell, the environmental attributes associated with the RNG.

UGI Gas estimated that the cost impact to all PGC ratepayers would be \$0.07 per mcf. The Company subsequently indicated that retiring the environmental attributes for the RNG would improve the attractiveness of UGI Gas to investors.

OSBA Statement No. 1-S, at 1 (footnote omitted) (formatting added).

As set forth above, the OSBA had substantial concerns about the Company's original proposal to purchase RNG. As originally proposed, the purchase cost was far in excess of market prices for natural gas, with no offsetting revenues from the sale of environmental credits called "Renewable Identification Numbers" or "RINs." being credited to ratepayers. In fact, while UGI Gas did not plan to sell the RINs for a direct benefit to ratepayers, the Company planned to retire those RINs for reasons that would benefit shareholders.

In OSBA's view, the original RNG proposal was clearly inconsistent with the Company's obligation for least cost procurement. The OSBA also had concerns about the extended nature of the proposed purchase of RNG, beyond that covered in the contract with Archaea.

The *Joint Petition* substantially addresses these concerns by limiting the approved purchase of RNG from Archaea to five years¹ and by crediting ratepayers with net revenues from the sale of RINs.²

In evaluating the settlement, the OSBA relied substantially on the Company's analysis that the value of RINs would substantially exceed the excess cost of RNG supplies, and thus ratepayers would not pay any more for RNG than for traditional natural gas supplies.³

In addition, the Company has agreed to report back on the impact of the Archaea contract on ratepayers in its next PGC proceeding, at which time parties will be able to evaluate the whether the Company's RNG program performed as UGI Gas expected.

¹ *Joint Petition*, at Paragraph 20.

² *Joint Petition*, at Paragraph 21.

³ See *Joint Petition*, at 5, footnote 2.

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,

/s/ Steven C. Gray

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

Office of Small Business Advocate
555 Walnut Street
Forum Place, 1st Floor
Harrisburg, PA 17101

Dated: August 25, 2021

Appendix D

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2021-3025652
	:	
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 April 30, 2021, 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 21, 2021, the OCA filed a Notice of Appearance, Formal Complaint, and Public Statement in this matter. On June 1, 2021, the Company made its definitive filing. The Company proposed a PGC rate of \$4.7754 per Mcf for the residential class, which was an increase from the then current PGC rate of \$4.4594 per Mcf.

The Company's filing was assigned to the Office of Administrative Law Judge and further assigned to Administrative Law Judge Dennis Buckley 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 Buckley conducted a Prehearing Conference in this matter on June 11, 2021. On June 18, 2021, a Motion for Protective Order was filed by the Company, which was granted by ALJ Buckley on June 18, 2021.

As part of its investigation and analysis of the Company's filings, the OCA served extensive discovery on the Company. On July 6, 2021 and July 29, 2021, the OCA submitted the Direct Testimony and Surrebuttal Testimony of Jerome D. Mierzwa, respectively. During this time, the Joint Petitioners engaged in 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 July 29, 2021, 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 July 30, 2021 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 discussions represents the terms of the Settlement that address the OCA's concerns in this case.

A. Purchase of Renewable Natural Gas (RNG) Pilot Program

In his direct testimony, Mr. Mierzwa addressed his concerns and recommendations with respect to the Company's RNG proposal. Mr. Mierzwa recommended approval of the Company's RNG proposal to purchase RNG supplies totaling 0.5% of its PGC gas supply portfolio for the PGC year beginning December 1, 2021 and deferral of the Company's proposal to increase the RNG gas supply portfolio percentage to 1.0 percent for the PGC year that begins December 1, 2022 and 2.0 percent for the PGC year that begins December 1, 2023 to be evaluated in next year's and the following year's PGC proceeding, respectively. OCA St. No. 1 at 3. Mr. Mierzwa noted that the Company indicated that it would obtain Environmental Attributes known as Renewable Identification Numbers (RINs) as part of its RNG purchase proposal. Id. Initially, the Company indicated that it was not proposing to sell the RINs and instead retire them in an effort to maximize the environmental benefit. UGI St. No. 2 at 38. Mr. Mierzwa recommended that the Company sell the RINs and credit PGC customers with the revenues received to reduce the PGC cost impact of RNG purchases. Id.

In rebuttal, UGI witness Jesse R. Tyahla disagreed with Mr. Mierzwa's recommendation to defer the Company's proposal to increase the portion of its PGC supply that is sourced from RNG stating that Mr. Mierzwa's approach is not the best for supporting the developing RNG marketplace. UGI St. No. 2-R at 13-14. Mr. Tyahla states that development will take significant lead time and upfront investment and that signaling to the market participants that UGI is making long-term plans to procure RNG supply is supportive of RNG development activities in

Pennsylvania, and its multi-year approach may drive prices down and have positive local economic impacts. Id. at 14. He also stated that UGI did not initially propose to sell the RINs associated with its RNG purchase because selling the RINs transfers the environmental benefits associated with the purchase of the RNG to a third party. UGI St. No. R-2 at 22.

In surrebuttal, Mr. Mierzwa stated that UGI has no experience purchasing RNG and unforeseen complexities could arise. OCA St. No. 1-SR. He stated that it is prudent for UGI and the parties to be able to gain insight into UGI's experience purchasing RNG before committing to additional purchases and he believes that the short delays he recommends will not have a significant adverse impact on RNG market development. Id. As for the RINs, Mr. Mierzwa modified his original proposal by stating that it is not necessary for UGI to sell the RINs at this phase of its initial proposal. He further recommended that UGI provide an estimate of costs it would have incurred to sell the RINs and an estimate of the revenues it would have realized from the sale of the RINs which would allow the parties in next year's proceeding to further evaluate the purchase of RNG and RIN sales.

After settlement negotiations with the parties, the Joint Petitioners agreed that UGI will enter into a five-year contract to obtain 909 dth per day of RNG from the Archaea Energy (Archaea) facility. Settlement ¶ 20. As part of the proposed transaction, UGI will undertake a five-year pilot program that will explore the ability to generate revenues through the sale of RINs. The pilot will focus on offsetting or lowering the cost premium of the gas purchased in the Archaea Contract by selling associated RINs and crediting net revenues received from the sale of the RINs to the PGC. Settlement ¶ 21. Under the pilot, the PGC will be credited with either the first \$12.50/dth of net RIN sales revenue or the full cost premium of RNG over the alternative non-RNG supply cost, whichever is lower. Id. In its next PGC filing, UGI agrees to: (1) report on the

daily quantities of RNG purchased; (2) identify the PGC rate impact of its RNG purchases; (3) identify the BTU content of its RNG purchases to the extent such data is available; and (4) report on the RIN sales activity, including volumes sold and prices obtained on a monthly basis. Settlement ¶ 22. Approval of the Company's request to increase the RNG gas supply portfolio percentage to 1.0% for the PGC year beginning December 1, 2022 and to 2.0% for the PGC year beginning on December 1, 2023 is deferred without prejudice and will be evaluated in future PGC proceedings. Settlement ¶ 23.

The OCA notes that the RNG market, and the associated RIN market, is new and growing. The OCA submits that the RNG settlement terms are in the public interest for the following reasons. First, under the Settlement, the Company will shorten the length of its contract with Archaea from the fifteen (15) years originally proposed to five (5) years, which will allow UGI to negotiate different terms if unanticipated complexities arise. Additionally, an extension of the duration of the pilot program from three (3) years to five (5) years offers all of the parties more time to evaluate the program which is particularly beneficial to the public interest as the parties gain more knowledge and understanding of RNG and RIN markets. The reporting that UGI agrees to do is in the public interest because it will provide access to more data and information that can be evaluated by the OCA and all parties in future PGC proceedings. Lastly, the Company's agreement to defer its request to increase the RNG gas supply portfolio percentage to 1.0% beginning December 1, 2022 and to 2.0% beginning December 1, 2023 addresses the OCA's concerns because it would provide the opportunity to evaluate the purchase of additional RNG in the next two years' PGC proceedings. Overall, the Settlement allows for the cautious exploration of these new markets while providing guiderails that protect consumers from unexpected market conditions.

B. Other Provisions

The Settlement includes four other provisions that the OCA did not address in testimony: design day, UGI Energy Services, LLC (UGIES) contract consolidation, peak day capacity supply additions, and peaking contract RFP modifications. Settlement ¶¶ 15-24. The OCA 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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