

UGI UTILITIES, INC. – GAS DIVISION

BEFORE

THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Information Submitted Pursuant to

Section 53.51 et seq of the Commission’s Regulations

UGI GAS STATEMENT NO. 1 – CHRISTOPHER R. BROWN

UGI GAS STATEMENT NO. 2 – TRACY A. HAZENSTAB

UGI GAS STATEMENT NO. 3 – VIVIAN K. RESSLER

UGI GAS STATEMENT NO. 4 – JOHN F. WIEDMAYER

UGI GAS STATEMENT NO. 5 – VICKY A. SCHAPPELL

**UGI UTILITIES, INC. – GAS DIVISION – PA P.U.C. NOS. 7 & 7S
SUPPLEMENT NO. 32**

DOCKET NO. R-2021-3030218

Issued: January 28, 2022

Effective: March 29, 2022

UGI GAS STATEMENT NO. 1

CHRISTOPHER R. BROWN

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Docket No. R-2021-3030218

UGI Utilities, Inc. – Gas Division

Statement No. 1

**Direct Testimony of
Christopher R. Brown**

Topics Addressed:

- Purpose of Testimony and Rate Filing Overview**
- Need for Rate Relief**
- COVID-19 Relief Efforts**
- Unification of Rates**
- UGI-1 Initiative and UNITE**
- Auburn Capacity Lease**
- Salaries and Wages Adjustments**
- Management Performance**

Dated: January 28, 2022

1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. Please state your name and business address.**

3 A. My name is Christopher R. Brown. My business address is 1 UGI Drive, Denver, PA
4 17517.

5
6 **Q. By whom and in what capacity are you employed?**

7 A. I am employed by UGI Utilities, Inc. (“UGI”) as its Vice President and General Manager
8 of Rates and Supply. UGI is a wholly-owned subsidiary of UGI Corporation (“UGI
9 Corp.”). UGI has two operating divisions, the Gas Division (“UGI Gas” or the
10 “Company”) and the Electric Division (“UGI Electric”), each of which is a public utility
11 regulated by the Pennsylvania Public Utility Commission (“Commission” or “PUC”).
12

13 **Q. Please briefly describe your responsibilities in that capacity.**

14 A. As Vice President and General Manager of Rates and Supply, I am responsible for all rate,
15 supply, and associated regulatory compliance activities for UGI Gas and UGI Electric. For
16 the rates component, I oversee the areas of sales and revenue forecasting, tariff
17 administration and compliance, Choice administration and compliance, rate application,
18 Section 1307(f) purchased gas cost (“PGC”) filings, electric provider of last resort
19 (“POLR”) filings, Section 1307(e) filings, base rate cases, and UGI’s energy management
20 information technology systems. My supply responsibilities include oversight of supply
21 procurement and contracting, gas and power scheduling, and tracking of interstate pipeline
22 and wholesale power market activities that affect the Company’s gas and power
23 procurement costs. My regulatory compliance responsibilities cover a broad range of
24 oversight and compliance for the state and federal jurisdictional activities of UGI. Prior to

1 my role as Vice President and General Manager of Rates and Supply, I was Senior Director
2 of Operations for UGI's southern operating region. In my current role, I report directly to
3 the Chief Regulatory Officer.

4
5 **Q. What is your educational and professional background?**

6 A. Please see my resume, UGI Gas Exhibit CRB-1, which is attached to my testimony.

7
8 **Q. Have you testified previously before this Commission?**

9 A. Yes. UGI Gas Exhibit CRB-1 contains a list of those proceedings.

10
11 **II. PURPOSE OF TESTIMONY AND RATE FILING OVERVIEW**

12 **Q. Please describe the purpose of your testimony in this proceeding.**

13 A. My testimony addresses several points. First, I present an overview of the rate filing,
14 including a brief explanation of the reasons for rate relief and an outline of the testimony
15 of each witness in this proceeding, including the Company's proposal to implement
16 alternative ratemaking, specifically a Weather Normalization Adjustment. Second, I
17 discuss the Company's efforts to provide relief to customers impacted by the COVID-19
18 Pandemic, as well as related operational impacts. Third, I explain the Company's proposal
19 to complete the final step in the rate unification of the former North and South/Central Rate
20 Districts (*i.e.*, Rates N/NT and DS). Fourth, I summarize the recent successes
21 accomplished through the UGI-1 and the UGI Next Information Technology Enterprise
22 ("UNITE") initiatives. Fifth, I describe adjustments made to salaries and wages which are
23 additions to the original future test year ("FTY") and fully projected test year ("FPFTY")

1 budgets. Lastly, I summarize the evidence of UGI Gas's successful management
2 performance and propose how it should be recognized in this case.

3
4 **Q. Are you sponsoring any exhibits in this proceeding?**

5 A. I am sponsoring UGI Gas Exhibit CRB-1. Also, I am sponsoring certain responses to the
6 Commission's standard filing requirements, as indicated on the master list accompanying
7 this filing.

8
9 **Q. Please identify the other witnesses providing direct testimony on behalf of UGI Gas
10 in this proceeding and the subject matter of their testimony.**

11 A. In addition to my testimony, the following witnesses are providing testimony in support of
12 the Company's rate request:

13
14 **Tracy A. Hazenstab** (UGI Gas Statement No. 2) holds the position of Principal Analyst -
15 Rates for UGI Gas. She addresses UGI Gas's budgeting process; operating revenues and
16 expenses; compliance with Section 1301.1 of the Public Utility Code; and the revenue
17 requirement model supporting the Company's proposed rate increase (UGI Gas Exhibit A
18 (Fully Projected)). Ms. Hazenstab also sponsors the revenue requirement models for the
19 future and historic periods, UGI Gas Exhibit A (Future) and UGI Gas Exhibit A (Historic),
20 respectively.

21
22 **Vivian K. Ressler** (UGI Gas Statement No. 3) holds the position of Senior Manager, Plant
23 and Regulatory Accounting at UGI. Ms. Ressler presents UGI Gas's rate base claim for

1 the Historic Test Year (“HTY”), FTY, and FPFTY. Ms. Ressler also addresses accounting
2 for information technology costs and budget adjustments.

3
4 **John F. Wiedmayer** (UGI Gas Statement No. 4) holds the position of Project Manager at
5 Gannett Fleming Valuation & Rate Consultants, LLC. Mr. Wiedmayer developed and
6 supports UGI Gas’s claim for annual depreciation expense, and the accumulated
7 depreciation reserve. His studies are presented in UGI Gas Exhibit C (Fully Projected),
8 UGI Gas Exhibit C (Future) and UGI Gas Exhibit C (Historic).

9
10 **Vicky A. Schappell** (UGI Gas Statement No. 5) holds the position of Principal Analyst,
11 Capital Planning for UGI Gas. Ms. Schappell addresses capital expenditures and capital
12 planning, including those for UNITE Phase III - Enterprise Asset Management (“EAM”).

13
14 **Paul R. Moul** (UGI Gas Statement No. 6) holds the role of Managing Consultant of P.
15 Moul & Associates, Inc. Mr. Moul presents expert testimony supporting the Company’s
16 claimed capital structure, cost of debt, cost of common equity, and overall fair rate of
17 return. Schedules and workpapers supporting Mr. Moul’s findings are set forth in UGI Gas
18 Exhibit B (Rate of Return).

19
20 **Nicole M. McKinney** (UGI Gas Statement No. 7) holds the position of Director of
21 Financial Planning and Analysis for UGI Corporation. Ms. McKinney addresses various
22 tax issues, including the Company’s claim for federal and state income taxes, taxes other
23 than income taxes, the calculation of the accumulated deferred income taxes (“ADIT”)

1 offset to rate base, the repairs allowance and the calculation of a hypothetical consolidated
2 tax savings adjustment as required by Section 1301.1 of the Public Utility Code.

3
4 **Sherry A. Epler** (UGI Gas Statement No. 8) holds the position of Senior Manager Tariff
5 and Supplier Administration – Rates for UGI Gas. Ms. Epler’s testimony addresses the
6 development of the Company’s HTY, FTY and FPFTY test year sales and revenues. In
7 addition, Ms. Epler addresses proposed revenue allocation, rate design and tariff updates.
8 Ms. Epler sponsors UGI Gas Exhibit E (Proof of Revenue) and UGI Gas Exhibit F (Current
9 and Proposed Tariffs).

10
11 **Timothy J. Angstadt** (UGI Gas Statement No. 9) holds the position of Vice President of
12 Operations. Mr. Angstadt’s testimony addresses UGI Gas’s operations and natural gas
13 system, and the impacts COVID-19 had on the Company’s field operations. In addition,
14 Mr. Angstadt discusses UGI Gas’s Commission-approved Long-Term Infrastructure
15 Improvement Plan (“LTIIIP”), and the impact of the LTIIIP and other initiatives on system
16 performance, safety, and reliability. Mr. Angstadt further discusses certain proposed
17 employee additions that are necessary for UGI Gas to maintain the pace of its capital
18 replacement program. In addition, Mr. Angstadt addresses UGI Gas’s efforts and future
19 plans to investigate and, where necessary, remediate sites in Pennsylvania where UGI Gas
20 or corporate predecessors once owned and/or operated manufactured gas plants in
21 connection with gas utility operations.

22
23 **Constance E. Heppenstall** (UGI Gas Statement No. 10) holds the role of Senior Project
24 Manager – Rate Studies for Gannett Fleming Valuation & Rate Consultants, LLC. Ms.

1 Heppenstall prepared and sponsors UGI Gas’s fully allocated cost of service study. This
2 study is contained in UGI Gas Exhibit D. The Allocated Cost of Service Study (“ACOSS”)
3 allocates the Company’s cost of service associated with Commission jurisdictional
4 operations to the Company’s retail customer classes.

5
6 **John D. Taylor** (UGI Electric Statement No. 11) is a Managing Partner of Atrium
7 Economics LLC. Mr. Taylor’s testimony addresses the rationale, design and applicability
8 of the Company’s proposed Weather Normalization Adjustment mechanism.

9
10 **III. NEED FOR RATE RELIEF**

11 **Q. Please discuss UGI Gas’s proposed rate relief request and provide an overview of the**
12 **Company’s proposals in this proceeding.**

13 A. UGI Gas is requesting an increase in its annual base rate operating revenues of \$82.7
14 million, or 7.8 percent on a total revenue basis, with a proposed effective date of March
15 29, 2022. The base rate increase requested in this filing utilizes a FPFTY ending September
16 30, 2023. In addition, UGI Gas proposes in this proceeding to complete the transition to
17 uniform distribution rates for both Rates N/NT and Rate DS across the former North and
18 South/Central Rate Districts, an effort proposed but not completed as part of the
19 Company’s 2019 and 2020 rate cases.

20
21 **Q. Has the Company evaluated the impact of its proposed rate increase on average**
22 **customer bills generally?**

1 A. Yes. As shown in Table 1, below, the Company has evaluated the impact of its proposed
 2 rate increase on the average monthly bill of residential heating, commercial heating, and
 3 industrial customers.

Table 1 Average Monthly Bill Impact

Average Residential Heating Customer Bill Impact					
		Total Monthly Bill Impact			
	<u>Average Usage</u>	<u>Current</u>	<u>Proposed</u>	<u>Increase (Decrease)</u>	<u>Total</u>
All Customers	73.1 Ccf	\$ 98.62	\$ 108.01	\$ 9.39	9.5%

Average Commercial Heating Customer Bill Impact					
		Total Monthly Bill Impact			
	<u>Average Usage</u>	<u>Current</u>	<u>Proposed</u>	<u>Increase (Decrease)</u>	<u>Total</u>
Former North	28.8 Mcf	\$ 307.00	\$ 330.09	\$ 23.09	7.5%
All Others	28.8 Mcf	\$ 317.93	\$ 330.09	\$ 12.16	3.8%

Average Industrial Customer Bill Impact					
		Total Monthly Bill Impact			
	<u>Average Usage</u>	<u>Current</u>	<u>Proposed</u>	<u>Increase (Decrease)</u>	<u>Total</u>
Former North	92.4 Mcf	\$ 931.45	\$ 993.83	\$ 62.38	6.7%
All Others	92.4 Mcf	\$ 966.55	\$ 993.83	\$ 27.28	2.8%

4
 5 The average customer monthly bill impacts set forth in Table 1, above, are fair and
 6 reasonable because, as described in more detail below, UGI Gas will utilize the increase in
 7 distribution rates to support its ongoing provision of safe and reliable distribution service
 8 for its customers and, even with this increase, will continue to have distribution rates that
 9 compare favorably to other Pennsylvania natural gas distribution companies (“NGDC”),
 10 and on a total bill basis, inclusive of natural gas costs. Moreover, the Company’s average
 11 customer bills are less than they were in 2008. The proposed customer charges also

1 reasonably reflect cost-of-service principles, while considering the rate design principles
2 of gradualism.

3
4 **Q. Why is UGI Gas seeking a rate increase at this time?**

5 A. UGI Gas continues to make substantial distribution system investments that are necessary
6 to: continue the accelerated replacement of aging gas plant infrastructure; upgrade and
7 improve system segments and modernize facilities; serve new residential and commercial
8 customers; connect customers converting to natural gas; install and upgrade supporting
9 information technology systems; and ensure the safety of the Company's employees, the
10 communities it serves, and its distribution system. Moving forward, these system
11 improvements and investments will require the Company to increase its efforts to attract,
12 recruit, train, and retain those professional, technical, and field-qualified personnel and
13 resources necessary to implement, operate, and maintain those investments. These
14 investments are all necessary to grow and continue to maintain a safe and reliable
15 distribution system and provide quality customer service. As compared to pre-FPFTY
16 gross plant levels, UGI Gas is projecting an increase of approximately \$445 million in
17 gross plant through the FPFTY compared to the end of the FTY and \$795 million in gross
18 plant when compared to the end of the HTY. Based on this factor alone, UGI Gas's current
19 rates will not provide it with a reasonable opportunity to earn its cost of capital on its
20 increased rate base investments.

21 Other cost drivers adversely impact the Company's ability to earn a reasonable rate
22 of return on its utility investments. Since its last base rate case in 2020, UGI Gas has
23 adopted reasonable and competitive annual wage and salary adjustments, meeting industry
24 benchmarks for wages and salaries in order to retain and attract qualified employees. UGI

1 Gas will continue to do so where necessary to maintain a productive and effective
2 workforce. The Company has also experienced other general price increases for necessary
3 products and services. The Company is specifically planning for needed increases to
4 staffing levels to maintain reliability, regulatory compliance, and continued improvement
5 in several areas, most notably, information technology, operations, and training. While
6 UGI Gas continues to focus on efficient operations and has seen stable customer growth
7 over time, the Company's forecasted increases in operating and capital costs, along with
8 experienced and anticipated changes in per customer usage, will prevent UGI Gas from
9 having a reasonable opportunity to earn a fair rate of return on its investment at present
10 rates.

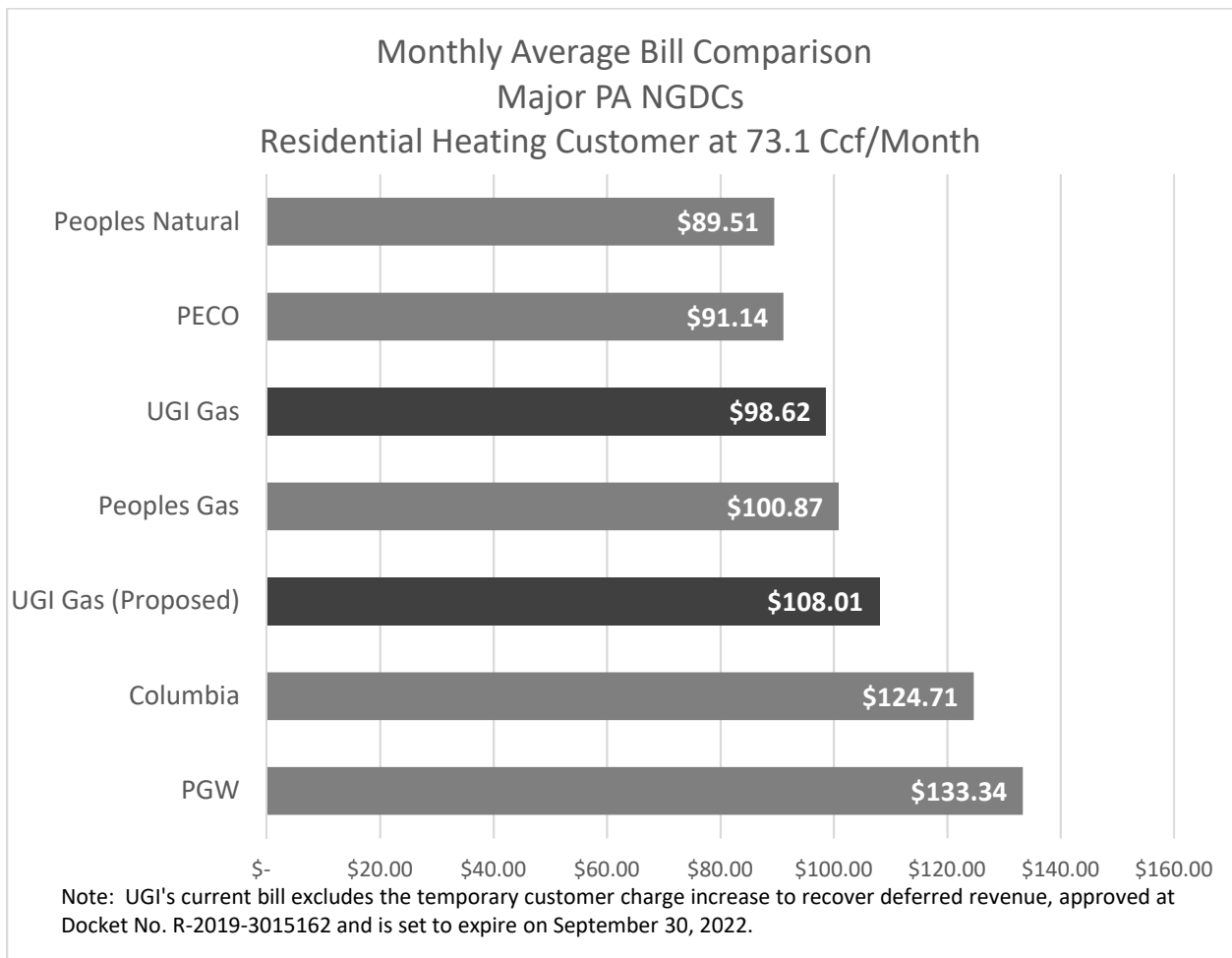
11 Specifically, as reflected in UGI Gas Exhibit A (Fully Projected), Schedule A-1,
12 UGI Gas's operations are projected to produce an overall return on rate base of 6.13%,
13 which equates to a return on common equity of only 7.89% for the twelve months ending
14 September 30, 2023. As explained by UGI Gas witness Paul R. Moul (UGI Gas Statement
15 No. 6), those returns are not adequate based on applicable financial analysis and the risks
16 confronted by UGI Gas. Unless UGI Gas receives the requested rate relief, those returns
17 will continue to decline and potentially jeopardize UGI Gas's ability to attract the capital
18 needed to make system investments that support enhancing the reach and capacity of its
19 distribution system. Moreover, with its requested rate relief, UGI Gas will have sufficient
20 return on investment needed to continue replacing older, more risk prone facilities,
21 systems, and equipment, each of which is necessary to ensure continued system reliability,
22 safety, and customer service performance. UGI Gas anticipates that it will be filing another
23 rate case approximately a year following the filing of this base rate proceeding, as

1 significant capital investment amounts similar to those projected for the FPFTY are
2 projected to continue and will drive the need for additional timely rate relief.

3
4 **Q. How do UGI Gas’s rates compare with other Pennsylvania utilities?**

5 A. A comparison of average residential heating bills, shown in Table 2 below, illustrates that
6 UGI Gas’s current distribution rates compare favorably to the rates of other major NGDCs
7 in the Commonwealth, and will remain so, even at the full increase of proposed rates.

8 **Table 2 – Residential Heating Distribution Rate Comparison**



10 In considering UGI Gas’s overall rates, it is also important to note that the Company has
11 focused in recent years on a continued restructuring of its natural gas supply portfolio in
12 order to maximize the benefits associated with the Commonwealth’s shale gas supply

1 resources. Also the Company has increased its focus on Environmental, Social and
2 Governance (“ESG”) activities, such as the Company’s recently approved, first of its kind,
3 pilot program designed to demonstrate the benefits of utilizing renewable natural gas
4 (“RNG”) as part of the Company’s supply portfolio. RNG stands to provide numerous
5 benefits to the natural gas industry and its consumers as related to the provision of lower-
6 carbon solutions that can be readily integrated into existing natural gas systems. Despite
7 recent increases in the cost of gas, customer benefits associated with these activities are
8 readily evident. Even with the rate changes proposed in this proceeding, the average
9 residential heating customer bill will be 21% lower than it was in 2008 when natural gas
10 commodity prices were materially higher. In summary, UGI Gas offers excellent service
11 to customers at reasonable rates.

12 13 **IV. COVID-19 RELIEF EFFORTS**

14 **Q. Please describe how the COVID-19 pandemic has affected UGI Gas’s provision of**
15 **service to its customers.**

16 A. Since March 6, 2020, when Pennsylvania Governor Wolf issued a Proclamation of Disaster
17 Emergency,¹ followed by a March 15, 2020 Executive Order implementing widespread
18 closures of non-life-sustaining businesses and work from home directives, UGI Gas has
19 had to adapt its operations, accounting, and customer outreach to respond to the enduring
20 COVID-19 Pandemic. In the intervening months, the Governor’s office issued a number
21 of subsequent orders - including, the Limited Time Mitigation Order issued December 10,
22 2020, which limited or suspended many indoor operations and gatherings.² In addition to
23 the orders issued by the Governor’s office, the Commission issued Emergency Orders on

¹ <https://www.pema.pa.gov/Governor-Proclamations/Pages/default.aspx>

² <https://www.governor.pa.gov/wp-content/uploads/2020/12/20201210-TWW-Limited-Time-Mitigation-Order.pdf>

1 March 13, 2020, March 20, 2020, and October 13, 2020, modifying the Commission's
2 policies and procedures in response to COVID-19.

3
4 **Q. How did these orders from the Governor and the Commission affect Company**
5 **operations?**

6 A. The operational impact of the COVID-19 Pandemic ("Pandemic") is discussed in more
7 detail by UGI Gas witness Mr. Angstadt (UGI Gas Statement No. 9). However, in response
8 to the Pandemic, the Company transitioned as much of its workforce to remote duties as
9 possible. The Company adopted numerous practices to ensure the safety of its employees
10 and customers. This permitted the Company to maintain the ongoing safe and reliable
11 operation of the distribution system.

12
13 **Q. Did the Company assist customers impacted by the economic effects of the Pandemic?**

14 A. Yes. Consistent with the Commission's March 13, 2020 Emergency Order, the Company
15 ceased service terminations and took measures to protect low-income customers affected
16 by the Pandemic. Beginning March 18, 2020, the Company ceased removing customers
17 from its Customer Assistance Plan ("CAP") for failure to recertify and instructed
18 Community Based Organizations ("CBOs") to accept telephonic "signatures" for CAP
19 program authorizations. On March 24, 2020, the Company began waiving all late payment
20 charges. The Company subsequently resumed normal low-income activities in July 2021.

21 On May 21, 2020, UGI Utilities, Inc. filed a petition to modify its consolidated
22 Universal Service and Energy Conservation Plan ("USECP") to implement a pre-pandemic
23 proposal to reduce maximum-tiered monthly Percent-of-Income payments ("PIPs")

1 required of its CAP customers.³ In this PIP petition, the Company sought to update the
2 USECP to reflect the Commission’s revisions to the CAP Policy Statement at 52 Pa. Code
3 § 69.261 et seq. On August 5, 2021, the Commission entered an Order seeking
4 supplemental information (regarding program costs and CAP participation levels) and
5 establishing comment and reply comment periods. While the Commission has not ruled
6 on the petition, the Company believes energy burdens on UGI Gas’s CAP customers will
7 be reduced if the petition is approved.

8 The Company also made changes to its Low-Income Usage Reduction Program
9 (“LIURP”) to provide additional funding to LIURP contractors of up to \$500 per LIURP
10 job. These funds address Pandemic related costs (i.e., personal protective equipment,
11 masks, hand sanitizer, etc.) incurred and documented by the LIURP contractors. The
12 Company also expanded eligibility under its Operation Share grant program to 250% of
13 the federal poverty limit (“FPL”) and increased the maximum grant size from \$400 to \$600.
14

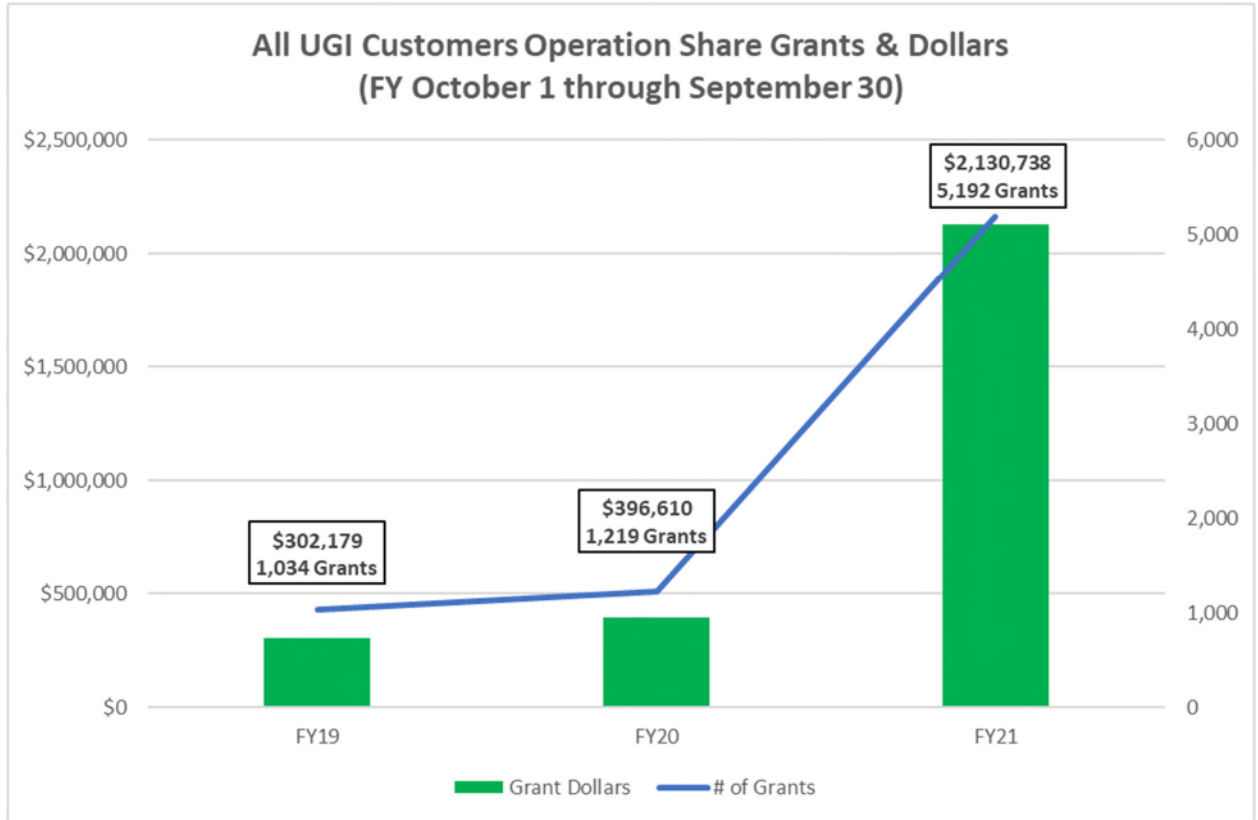
15 **Q. Were these changes accompanied by any additional communication efforts by the**
16 **Company?**

17 A. Yes. The Company launched an extensive information and outreach campaign associated
18 with its Pandemic response consisting of a COVID-19 Response webpage, webpages for
19 residential and commercial customers providing additional resources, bill inserts, website-
20 embedded customer-assistance program videos, webinars, online advertising,
21 informational emails, and direct mail letters and postcards. The result of these efforts (in

³ *Petition for Amendment of UGI Universal Service and Energy Conservation Plan for January 1, 2020 – December 31, 2025*, Docket Nos. M-2019-3014966 and P-2020-3019196. As of the date of this testimony, this petition remains pending before the Commission.

1 terms of Operations Share distributions and LIURP grants) are shown in Tables 3 through
2 4 below when comparing year-over-year results.

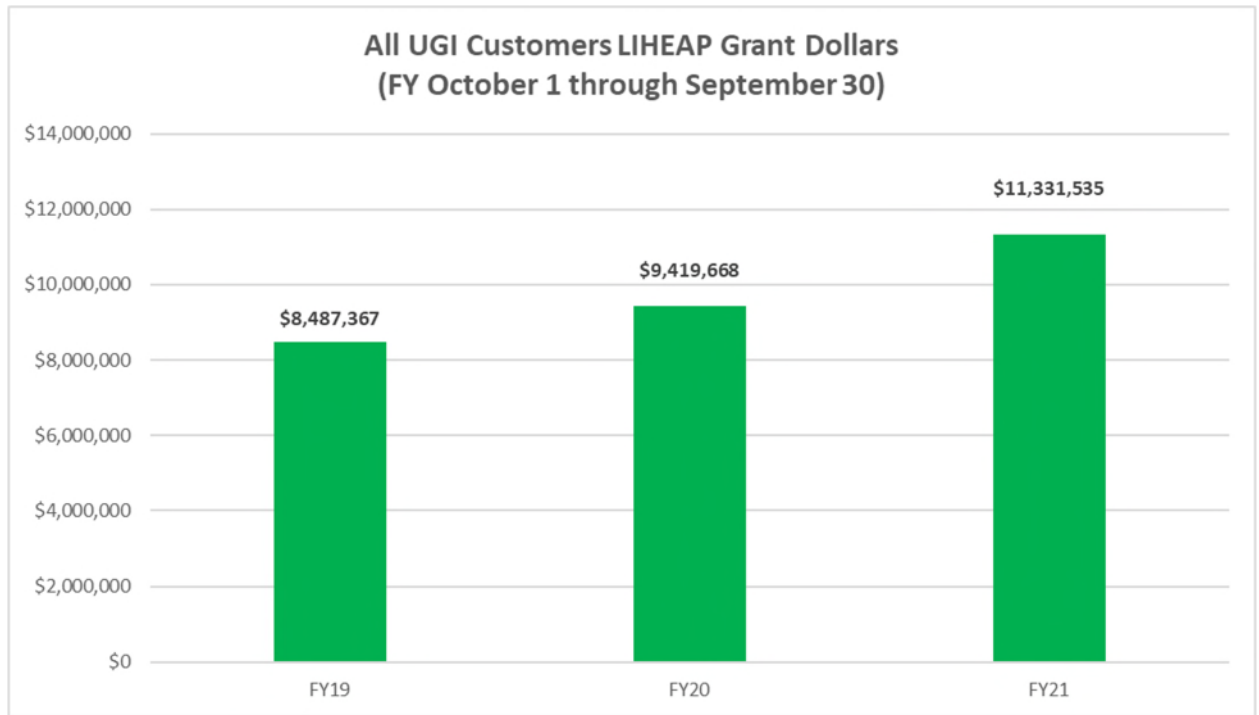
3 **Table 3**



4
5 Between FY 2019 and FY 2021, Operation Share grants increased by 605% (from
6 \$302,179 to \$2,130,738).

1

Table 4



2

3

4

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9

Between FY 2019 and FY 2021, LIHEAP grants increased by 34% (from \$8,487,367 to \$11,331,535). Additionally, the CARES Act Emergency Rental Assistance Program (“ERAP”) assisted 2,377 UGI Gas and UGI Electric customers, with an average grant amount of \$623 per customer. Total dollars year-to-date as of November 30, 2021 for ERAP is \$1,477,366. Lastly, overall CAP enrollments increased by 16% between FY2019 to FY2021.

10

Q. Are there any other programs that the Company implemented to assist customers during the pandemic?

11

12

A. Yes, with Commission approval at Docket No. R-2019-3015162, the Company launched an Emergency Relief Program (“ERP”) Phase I to assist natural gas customers economically impacted by the Pandemic. The program ran from October through December 2020 and provided installment payment plans for residential and business

13

14

15

1 customers. It also provided an opportunity for a one-time grant of up to \$400 for residential
2 customers who either received the federal CARES Act Economic Impact Payment or filed
3 for unemployment during the Pandemic. During the course of the program, the Company
4 granted over \$198,000 in grants to approximately 1,500 residential customers and
5 permitted over \$1.5 million in payment arrangements to approximately 1,800 customers.

6 On January 25, 2021, UGI Gas filed a Petition at Docket No. P-2021-3023839 to
7 establish ERP Phase II. The Company proposed continuing the temporary, voluntary
8 modifications to the USECP, established in ERP Phase I, in light of the ongoing COVID-
9 19 Pandemic. Pursuant to the Commission's Order, which entered on October 28, 2021,
10 UGI Gas was permitted to maintain the modifications to its hardship funds, which were
11 established in ERP Phase I through the end of 2021. These modifications included
12 expanding eligibility for hardship funds to households with income up to 250% of the FPL
13 and increasing the maximum hardship grants from \$400 to \$600, to the extent funds are
14 available.

15 16 **V. UNIFICATION OF RATES AND REPORTING**

17 **Q. Has UGI Gas altered its rate structure, tariff, and rate classes in recent years?**

18 A. Yes. Over the past few years, as a result of UGI Gas integrating three former separate
19 NGDCs, the Company has taken many steps toward unifying its rate structure, tariff, and
20 rate classes. This effort was undertaken to both increase efficiencies within the Company
21 and provide the same tariffed services to customers at the same rates throughout the
22 Company's service territory. The intra-company merger of 2018 (described below) was
23 the first step in this process of unification.

1 **Q. Please describe the Company’s merger of its prior NGDC subsidiaries.**

2 A. Prior to October 1, 2018, UGI Gas had two wholly-owned subsidiaries which were
3 Commission-certificated NGDCs. Those subsidiaries were UGI Penn Natural Gas, Inc.
4 (“UGI PNG”) and UGI Central Penn Gas, Inc. (“UGI CPG”). On March 8, 2018, UGI Gas
5 filed a petition with the Commission at Docket Nos. A-2018-3000381 *et al.* to approve the
6 merger of UGI PNG and UGI CPG into UGI Utilities, Inc., and the subsequent operation
7 of UGI Gas as three rate districts under the three former tariffs of UGI Gas, UGI PNG, and
8 UGI CPG. The Commission approved a settlement of that proceeding in an Order entered
9 on September 20, 2018. The merger was completed on October 1, 2018, and UGI Gas
10 commenced operations under the three-rate district structure described above with (a) three
11 sets of base rates; (b) three gas supply portfolios; (c) three PGC rates; (d) three sets of rules
12 applicable to Natural Gas Suppliers (“NGSs”) serving Choice and Non-Choice customers;
13 and (e) three tariffs. This successful merger positioned the Company to then move forward
14 with further harmonization of tariffs and rates.

15

16 **Q. Please describe those efforts to harmonize its tariff offerings and rate schedules after**
17 **the 2018 merger.**

18 A. In January 2019, the Company filed for a base rate increase at Docket No. R-2018-3006814
19 (“2019 Rate Case”). In that proceeding, the Company proposed to operate under a single
20 uniform tariff with uniform residential and commercial base rates and associated
21 surcharges and riders across its system.

1 **Q. Was the Company’s proposal to unify rates in the 2019 Rate Case approved?**

2 A. In very large part, yes. The Company’s proposal to unify rates was approved by the
3 Commission in an Opinion and Order entered October 4, 2019, with the exception of the
4 unification of former North Rate District and South/Central Rate District rates for both
5 Rates N/NT and Rate DS. This resulted in rate unification for over 97% of all UGI Gas
6 customers and permitted the Company to propose a two-step process to address final
7 unification for both Rates N/NT and Rate DS across all former rate districts.

8

9 **Q. Please describe the two-step process to unify Rates N/NT and Rate DS that was**
10 **approved by the Commission as part of the 2019 Rate Case.**

11 A. For Step 1, upon the effective date of new rates in the 2019 Rate Case, the Commission
12 approved a twelve (12) percent increase to Rates N/NT (North Rate District rates) and a
13 twenty (20) percent increase to Rate DS (North Rate District rates), with Rates N/NT and
14 Rate DS (South and Central Rate Districts) set uniformly by class to recover the remaining
15 N/NT and DS revenue requirements, respectively. As part of Step 2, the Company was
16 permitted to propose full uniform rates for these two rate classes in the Company’s next
17 general rate proceeding, which the Company did propose in its 2020 Rate Case at Docket
18 No. R-2019-3015162.

19

20 **Q. Was the Company able to make Rates N/NT and DS uniform in the last base rate case**
21 **filed in 2020?**

22 A. No. In paragraph 45 of the Joint Settlement Agreement of the 2020 Gas Base Rate Case
23 (“Settlement”), the Company withdrew its proposal to fully harmonize distribution rates

1 for Rates N/NT and DS without prejudice. Additionally, UGI Gas reserved its right to
2 propose unification of these rates in this proceeding.

3
4 **Q. What is the Company's proposal in this proceeding with respect to Rates N/NT and**
5 **Rate DS?**

6 A. The Company proposes to take the final step to merge both Rates N/NT and Rate DS across
7 all former rate districts by merging the rates in place for the geographic footprint of the
8 former North Rate District with those of the former Central and South Rate Districts at this
9 time. The Company's proposal for rate design for all customers, including the final
10 unification of DS and N/NT customers, is described in more detail in the Direct Testimony
11 of Sherry A. Epler (UGI Gas Statement No. 8). The Company believes that this proposed
12 final stage of rate harmonization is fully consistent with the principles of rate gradualism
13 given the magnitude of the proposed increases to impacted customers and the extended
14 period of time which will have lapsed since the Company's initial unification efforts began
15 in 2019.

16 **VI. UGI-1 INITIATIVE AND UNITE**

17 **Q. Please describe UGI Gas's UGI-1 initiative.**

18 A. UGI-1 is a Company-wide improvement initiative focusing on improvements in the area
19 of people, tools, and processes. The Company is building on its past focus on distribution
20 system modernization by taking advantage of newer technologies, equipping employees
21 for future success, and improving organizational communication. The centerpiece of UGI-
22 1 is UNITE, a multi-phased series of projects to identify and address business and
23 technology opportunities for improvement. The Company has completed multiple UNITE

1 phases to date and is presently engaged in a current-state analysis review of the Company's
2 asset management processes.

3
4 **Q. Has the UGI-1 initiative benefitted customers?**

5 A. Yes. UGI-1 has already established and implemented a number of common information
6 systems, tools, equipment types, and uniform work management and performance
7 platforms to support UGI's operations. This has allowed, and will continue to allow, UGI
8 Gas to become more efficient and effective in performing all aspects of its business,
9 including: taking calls from customers, performing billing and related activities,
10 constructing new distribution facilities, operating and maintaining its gas distribution and
11 transmission systems, and responding to and managing emergency situations.

12
13 **Q. How has the UGI-1 initiative impacted infrastructure and safety?**

14 A. Under UGI-1, UGI Gas applies a common set of initiatives in workplace safety. The
15 Company's standardized approach to training and safety culture, and in particular, its
16 development of a comprehensive and centralized training center and creation of a safety
17 and health management system, ensures that all Company employees share common values
18 regarding safety and are trained in a consistent manner throughout the Company's service
19 territory. The Company also uses this fully consolidated approach to the work identified
20 in its Second LTIP and is achieving improved distribution system safety based on
21 measurable performance criteria. During the five-year term of its current Second LTIP
22 (2020-2024), UGI Gas is investing approximately \$1.3 billion on infrastructure

1 improvements, building off an already-successful LTIIP that has realized material
2 reductions to the number of hazardous and non-hazardous leaks.

3
4 **Q. What is the UNITE initiative?**

5 A. The UNITE initiative is an effort to modernize and harmonize the Company's information
6 technology systems.

7
8 **Q. Please explain the improvements that the Company has made as part of UNITE.**

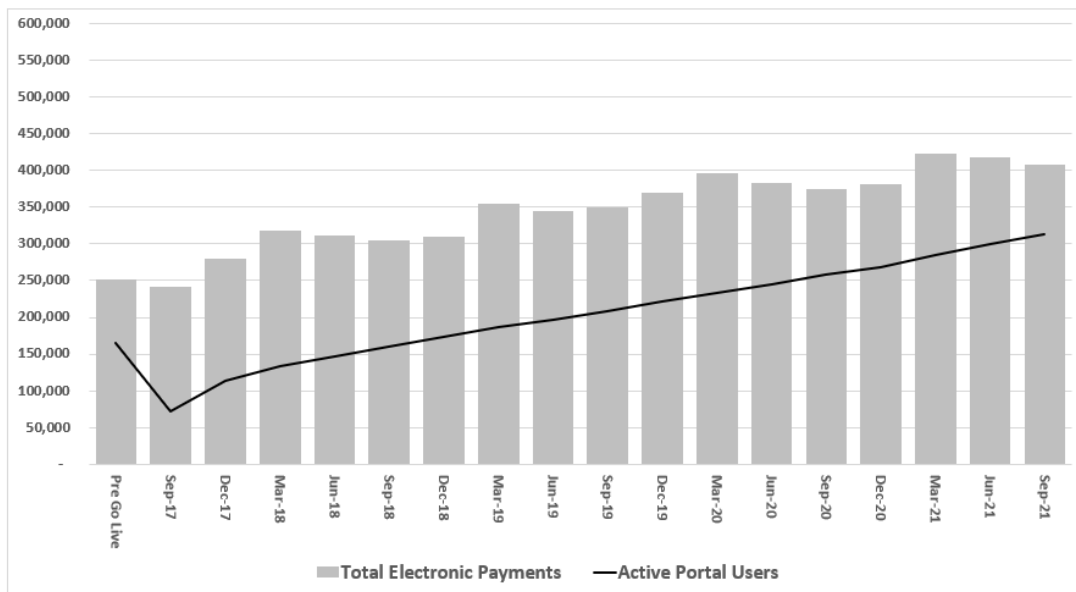
9 A. Phase I of UNITE replaced UGI's Customer Information Systems ("CIS") in September
10 2017. Since then, UGI has seen a 62% increase in electronic payments, and customers
11 with portal profiles have increased by 88%. These statistics indicate improved customer
12 experience and a reduction in the customer effort needed to access information and
13 services. The upwards trend of electronic payment adoption can be seen in Figure 5. Also,
14 as seen in Figure 6, after a brief post-implementation period, during which the Company
15 adapted and fine-tuned its new CIS, the Company has improved its customer service with
16 respect to certain customer service metrics, including grade of service (calls answered
17 within 30 seconds), as compared to pre-CIS implementation. Additionally, self-service
18 utilization rates, first call resolution, and contact center customer effort indicators have all
19 improved over the last few years.

20 Phase II of UNITE, which went live in July 2019, replaced the Company's
21 Enterprise Resource Planning ("ERP") system and introduced SAP's Fieldglass solution
22 for contractor billing. Since the implementation in 2019, internal controls have been
23 enhanced through the increased use of electronic purchase orders (59% increase) as well
24 as automated wire payments, approval routings, and user access provisioning.

1 Additionally, the Company has achieved efficiency in operations by reducing invoice
2 processing time (50% reduction in overdue invoices) and utilizing radio frequency barcode
3 scanners in the Company’s central warehouses.

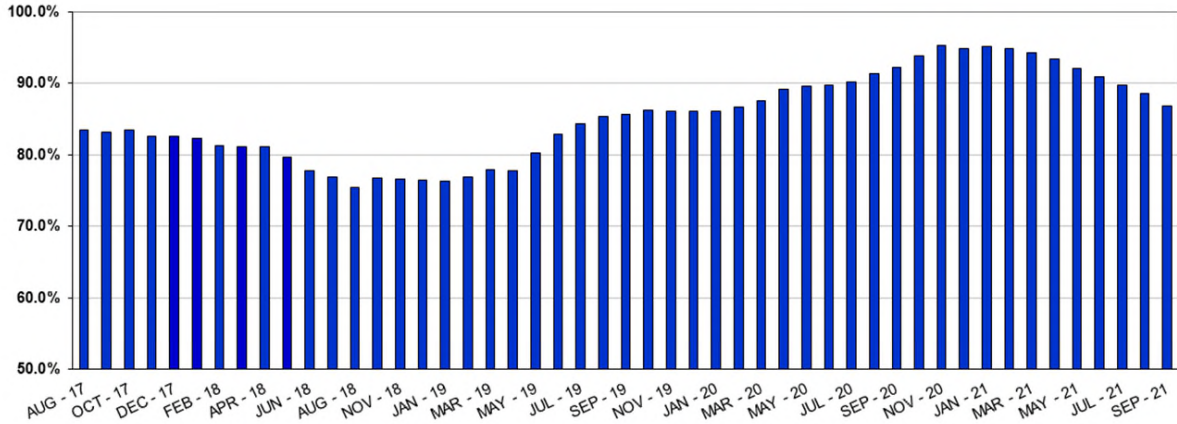
4 Phase III of UNITE, the Enterprise Performance Management (“EPM”) project,
5 went live in October 2020 and implemented the PowerPlan Capital Budgeting and
6 Forecasting solution integrated with the Company’s ERP and PowerPlan Fixed Asset and
7 Tax systems. PowerPlan provides embedded lifecycle governance for approving and
8 monitoring capital projects; improved visibility of capital expenditure requests and
9 authorized capital projects; detailed forecasting for more accurate tracking of ongoing
10 capital projects; and improved data analytics for making timely and optimal capital
11 decisions.

12 **Table 5 Customer Electronic Payments and Website Portal Utilization – September**
13 **2017 through September 2021**
14



15
16

Table 6 Combined Customer Service Performance - Grade of Service⁴
Rolling 12-Month Average from August 2017 through September 2021



4
5
6
7 **Q. Please describe the UNITE current state analysis of the Company’s asset**
8 **management processes.**

9 A. The current state analysis is a key element of UNITE’s current EAM project, a multi-year,
10 multi-phase project with the end goal of a new EAM and supporting applications. In mid-
11 2021, the Company kicked off the EAM’s asset data collection phase, which focuses on
12 the identification and standardized capture of asset data information across UGI. The asset
13 data collection phase is planned to go live for UGI Gas in January 2023. In the next phase,
14 the Company will be kicking off EAM’s asset management, work management, and field
15 service management projects. The current state analysis enables UGI to understand
16 processes and process variation across the Company, document future state
17 recommendations from key business stakeholders, and begin setting the stage for the EAM
18 transformation. These activities provide a critical base understanding for the UNITE
19 team’s pre-design workshops and are beneficial interactions with business stakeholders.

⁴ Grade of Service is the percentage of customer calls answered within 30 seconds of receiving the call and is a common measurement of call center performance and customer satisfaction.

1 The UNITE EAM program is described further in the direct testimony of Vicky A.
2 Schappell (UGI Gas Statement No. 5).

3
4 **Q. What processes are being evaluated in this current state analysis for UGI Gas?**

5 A. Specific gas processes within the scope of this current state analysis include: main
6 replacement, distribution system reinforcement, and line extension projects; service
7 installations; as-built tracking and traceability; record corrections; new and upgraded
8 regulator stations; inspections, maintenance and other repairs; paving and restoration; and
9 facility locates and damage prevention.

10
11 **Q. What process and system-related improvements does UGI Gas expect to derive from**
12 **the current UNITE EAM initiative?**

13 A. The current state analysis on process documentation will feed into the design for a new
14 EAM to leverage the same tools for similar processes that occur across UGI. One goal will
15 be eliminating obsolete IT systems and paper-based processes, while providing automation
16 to improve reliability and streamline operations. With respect to systems, the new EAM
17 will be integrated with a consolidated gas and electric Geographic Information System
18 (“GIS”), and other systems, such as CIS, ERP, and EPM discussed above. The EAM will
19 be a central repository for housing, analyzing, and accessing UGI assets and managing full
20 asset lifecycle information. The benefits derived from the EAM implementation will
21 include, among others, standardized business processes across the Company; improved
22 data quality; improved IT system maintainability; better facility tracking and traceability;
23 tools for ensuring ongoing regulatory compliance; a standard dispatching and mobility
24 solution for field work; enhanced work management capabilities; mapping upgrades and

1 digitized infrastructure as-builts; and improved portfolio and risk management capabilities
2 for guiding future betterment decisions. While the Company is at the beginning phase of
3 its multi-year EAM project, the foundational work being performed at this stage will ensure
4 a solid platform upon which to create a comprehensive and integrated EAM framework.

5
6 **Q. What will be the focus of the UNITE EAM initiative in the FPFTY?**

7 A. The Company will be implementing the asset data collection project to the field in the
8 FPFTY, rolling out improved data collection tools, systems, and utilizing the improved
9 data and systems which form the foundation for the broader EAM initiative. The Company
10 will be targeting the next portions of EAM (Asset Management, Work Management, Field
11 Service Mobility, and GIS) with a goal of placing those programs in service in the
12 following fiscal year.

13
14 **VII. AUBURN CAPACITY LEASE**

15 **Q. Please describe the Auburn Capacity Lease.**

16 A. On November 22, 2021, the Commission approved, via secretarial letter at Docket No. G-
17 2021-3028753, a new Capacity Lease Agreement allowing the Company direct access to
18 natural gas supplies for delivery from the Tennessee Gas Pipeline through the UGI Gas
19 Auburn Gate Station into the Auburn Gathering system, a natural gas gathering system
20 located in northeast Pennsylvania, owned by UGI Energy Services, LLC (an affiliate of the
21 Company). This new capacity lease will expand the available sources of reliable and
22 competitively priced supplies for the Company and its customers.

1 **Q. When does the Company anticipate the capacity lease going into service?**

2 A. The Company currently anticipates the capacity lease becoming available on July 1, 2022.

3

4 **Q. How were the costs of the capacity lease treated in this proceeding?**

5 A. Since the largest customer served by UGI Gas from the Auburn Gathering System is The
6 Proctor and Gamble Paper and Products Company, a Rate XD customer, it is appropriate
7 that the anticipated costs for the new lease be assigned to the Rate XD customer group.
8 The direct assignment of these costs has been reflected in UGI Gas Exhibit D, the ACOSS,
9 as it is consistent with the principle of cost causation; appropriate adjustments to Rate XD
10 revenue have also been incorporated as explained in the direct testimony of Sherry A. Epler
11 (UGI Gas Statement No. 8).

12

13 **VIII. SALARIES AND WAGES ADJUSTMENTS**

14 **Q. Is the Company making any adjustments to Salaries and Wages not included in the**
15 **FPFTY budget?**

16 A. Yes, Schedule D-9 includes total salary and wage increase adjustments of \$1.91 million.
17 The first adjustment (Adjustment #1) in the amount of \$1.32 million shown on Schedule
18 D-9 is for unbudgeted compensation and benchmarking adjustments to salary and wages.
19 The Company is making these adjustments as a result of recent compensation
20 benchmarking review activities that focused on how UGI Gas may continue to remain
21 productive in an increasingly competitive labor market. This is of critical importance as
22 the Company continues to look to ensure its efforts to attract, recruit, train and retain those
23 professional, technical and field-qualified personnel and resources necessary to implement,
24 operate, and maintain a safe and reliable natural gas distribution system for all customers.

1 The second adjustment (Adjustment #2) shown on Schedule D-9 is in response to the
2 Transportation Security Administration (“TSA”) Cyber Security Directives 2021#1 and
3 2021#2 (further described below).
4

5 **Q. Please describe the compensation benchmarking adjustments that the Company is**
6 **making in this case.**

7 A. The Company has reviewed current exempt and non-exempt employee compensation
8 levels against benchmark data provided by the American Gas Association (“AGA”) and
9 has begun to implement salary adjustments based on this study. These planned adjustments
10 affect 990 employees and will result in \$1.2 million of incremental cost to be applied to
11 the Company’s operating expense for UGI Gas in the FPFTY, and accordingly is shown as
12 an adjustment on Schedule D-9 plus incremental employee benefits.
13

14 **Q. Please describe the needs which are being addressed by the compensation**
15 **adjustments that you described?**

16 A. Like many companies in the current labor market, UGI has experienced an increase in
17 voluntary employee turnover as the available labor market has become constrained and
18 increasingly competitive. This is particularly true for roles that require experienced
19 employees. As a result of the current job market, more employees, including those with
20 years of regulated utility experience, are moving on to other opportunities outside of UGI.
21 In addition, in some instances, the Company encountered difficulties finding internal
22 interest for certain critical exempt positions. For instance, experienced non-exempt
23 employees (e.g., long term field employees) have declined taking operational field
24 supervisor roles due to the lack of adequate pay differential between these roles when

1 factoring in overtime and premiums. This has caused the Company to often look externally
 2 to fill critical positions, casting a wide geographic net in order to find suitable, experienced
 3 candidates to fill these critical roles. As this has occurred, the Company has also engaged
 4 external search agencies to assist in finding the candidates for UGI's needs, which adds
 5 considerable time and expense to the recruiting process. The purpose of implementing
 6 these adjustments is to improve UGI's ability to: (1) retain existing experienced employees;
 7 and (2) compete for qualified employees in order to fill needed roles in a very competitive
 8 job market.

9
 10 **Q. Can you please provide a summary of the compensation benchmarking adjustments?**

11 A. Yes, the chart below outlines the number of employees affected by these compensation
 12 adjustments, by functional department and includes operating expense and incentive
 13 compensation adjustments based on the employees' predetermined time allocations.

14 **Table 7: Compensation Benchmark Adjustments by Functional Department**

	Count of Employee ID	Total Pay Change	Gas OPEX Total FY2023	Gas OPEX Management Incentive Total FY2023
Accounting, Acts Payable, Admin, Billing, Bldg & Grounds, Business Support Services, Finance, Fleet	89	\$103,565	\$67,614	\$ 3,057
Capital Planning, Capital Program Mgt, Construction, Dispatch, Meter Shop, Operations, Pipeline Safety	253	\$699,977	\$403,594	\$28,935
Engineering, GIS, Telemetry, Environmental, Safety	178	\$371,087	\$51,504	\$ 3,290
Customer Care	158	\$43,710	\$307,664	\$653
HR, IT	125	\$440,168	\$298,536	\$14,798
Communications, Community Relations, Sales & Marketing	92	\$17,797	\$4,539	\$111
Procurement, Rates, Supply	39	\$78,373	\$13,635	\$541
Business Process Improvement, UNITE, Training	56	\$7,550	\$719	\$72
Totals	990		\$1,147,806	\$51,457

1 **Q. How did the Company arrive at the summary adjustments shown above?**

2 A. As I stated above, the Company reviewed salary data provided by AGA by position and
3 then compared current individual employee compensation levels to the AGA midpoint by
4 role, or other survey data where a job match could not be identified utilizing AGA data.
5 The use of the AGA midpoint survey data comports with the Company's goal to establish
6 compensation at the fiftieth percentile level. Years of service was used as the guideline for
7 employee compensation to create anticipated service requirements that link with targets
8 that are approximate to the midpoint of the salary recommendations. Compensation targets
9 were then identified based on years of service, in order to determine which specific
10 employees warranted adjustments. The adjustments were made in relative increments
11 against the midpoint compensation levels, above (over 5 years of service) or below (less
12 than 5 years of service) accordingly. Increases are planned to be phased-in beginning in
13 early 2022 and are expected to be completed by September 2022.

14

15 **Q. Please explain the Cyber Security adjustment in Schedule D-9 (Adjustment #2)?**

16 A. These staff additions are in direct response to the TSA cybersecurity directives, which were
17 issued in May⁵ and July 2021⁶ to protect against the impact of malicious cyber intrusions
18 affecting the nation's pipelines. The directives include approximately 90 specific required
19 actions to be applied to information and operational technology systems. The Company
20 has identified that five additional full-time employees are required to support these new
21 TSA cybersecurity directive requirements – four additional cybersecurity professionals and

5 See [https://windot.com/docs/rus/rus32wdw/PDF/TSA_security-directive-on-enhancing-pipeline-cybersecurity_\(002\).pdf](https://windot.com/docs/rus/rus32wdw/PDF/TSA_security-directive-on-enhancing-pipeline-cybersecurity_(002).pdf)

6 See <https://www.dhs.gov/news/2021/07/20/dhs-announces-new-cybersecurity-requirements-critical-pipeline-owners-and-operators>. UGI Gas notes that this second directive on cybersecurity is restricted from public disclosure and was sent directly to designated owners and operators.

1 one systems administrator. This additional cybersecurity and infrastructure staff will be
2 needed for the administration and management of the new cybersecurity procedures and
3 supervisory control and data acquisition system (“SCADA”) environment as cyber
4 professionals will monitor threats and protect the isolated SCADA network. Additionally,
5 cyber analysts will be required to manage the new cybersecurity appliances (firewalls,
6 network access control, and endpoint protection) and will be required to support
7 vulnerability management and patching requirements. The five positions are being added
8 at the identified median salary plus employment benefits. Based on discussions that the
9 Company has had with other utilities and the AGA, UGI’s proposed staffing aligns with
10 other utilities that are taking the same approach to satisfy the TSA requirements.

11
12 **IX. MANAGEMENT EFFECTIVENESS AND PERFORMANCE**

13 **Q. What actions has UGI Gas taken that reflect superior management performance?**

14 A. UGI Gas has focused on a number of areas to enhance and improve the quality and
15 effectiveness of its service in recent years that reflect superior management performance.
16 These management efforts include: (1) excellent customer service; (2) infrastructure
17 improvements made pursuant to the Company’s LTIP; (3) investments in safety; (4) IT
18 modernization; (5) environmental initiatives; (6) community engagement; and (7) diversity
19 and inclusion.

20
21 **Q. Please describe the Company’s achievements in providing superior customer service.**

22 A. Many industry experts have recognized UGI for its excellent customer service. Including
23 2020, UGI finished in first or second place in the J.D. Power award for customer
24 satisfaction among utilities in each of the last nine years and won the J.D. Power #1 in

1 Customer Satisfaction award a total of seven times (2003, 2004, 2005, 2006, 2007, 2013
2 and 2014) since UGI was first included in the survey in 2003 by J.D. Power. Most recently,
3 UGI was among 38 utility companies nationwide that were named a 2021 “Customer
4 Champion” based on the Cogent Syndicated Utility Trusted Brand & Customer
5 Engagement™ Residential study from Escalent, a human behavior and analytics firm. This
6 is the fourth consecutive year that UGI has received this award.

7
8 **Q. What infrastructure improvements has the Company achieved?**

9 A. As further explained in the testimony of Timothy J. Angstadt (UGI Gas Statement No. 9),
10 UGI Gas has an aggressive accelerated infrastructure replacement plan focused on
11 replacing all remaining cast-iron and bare steel mains. UGI Gas is a leader in the
12 Commonwealth, with the highest percentage of contemporary mains among major NGDCs
13 at almost 90%. The Company projects that it will eliminate all cast-iron mains by 2027
14 and all bare steel mains by 2041. The Company’s infrastructure improvement statistics,
15 exemplified by the reduction of leaks and cast iron breaks discussed in Mr. Angstadt’s
16 testimony, is a direct result of this aggressive accelerated infrastructure replacement plan.

17
18 **Q. Please describe the Company’s investments in Safety Culture Development and
19 Training.**

20 A. The Company constructed a comprehensive and centralized training center in Berks
21 County, which now serves as the heart of the Company’s training programs and provides
22 real-life and simulated training scenarios to ensure that UGI Gas’s personnel are providing
23 customers, communities and first-responders with enhanced service in the field. The

1 Company has also developed and implemented numerous safety focused initiatives, as
2 further explained in the testimony of Timothy J. Angstadt (UGI Gas Statement No. 9).

3
4 **Q. Did UGI receive any industry recognition on safety initiatives in 2021?**

5 A. Yes. UGI Gas was the winner of the 2021 American Gas Association Safety Awareness
6 Video Excellence (“SAVE”) award. The SAVE award recognizes outstanding contributors
7 to natural gas communications on safety and education. UGI’s entry, “Slips, Trips & Falls”
8 featured many of the Company’s own employees.⁷

9
10 **Q. Please describe the Company’s efforts at modernizing processes and Information
11 Technology.**

12 A. As described earlier in my testimony, Phase I and Phase II of the UNITE Project to upgrade
13 the Company’s CIS and ERP systems have been implemented and the Company is now
14 focused on UNITE Phase III, which will begin a long-term process of upgrading the
15 Company’s capital management systems. The Company has spent the last five years
16 dedicating significant time and resources to modernize its information systems in order to
17 increase its operating efficiency and to provide its customers with better service.

18
19 **Q. Please describe the Company’s engagement on environmental and social governance
20 (“ESG”) initiatives.**

21 A. The Company, as well as its parent UGI Corp., are committed to environmental
22 stewardship and social consciousness keenly focused on people and the planet. As
23 explained below, UGI Gas continues to have ESG as a significant area of focus.

⁷ See: <https://www.youtube.com/watch?v=PV4zKShr16w>

1 **Q. What actions has UGI Gas taken to address environmental stewardship?**

2 A. UGI Gas itself encourages energy efficiency through its voluntary EE&C programs. Since
3 1995, the Company has successfully converted more than 115,000 customers, mostly from
4 fuel oil, to more environmentally-friendly natural gas. UGI Gas has also connected service
5 to new natural gas generating facilities that, in part, have enabled the Commonwealth to
6 substantially lessen its reliance on electric generation produced by more carbon-intensive
7 fuels such as coal and oil. UGI Gas also has encouraged the adoption of environmentally-
8 friendly natural gas through the recent line extension tariff revisions adopted in the 2020
9 Gas Rate Case, which, under certain conditions, waives the contribution for customers
10 whose properties are within 150 feet of an existing gas main. Additionally, UGI Gas has
11 over 100 compressed natural gas fueled vehicles as part of its fleet, with plans to add nearly
12 100 more by the end of the FPFTY, which provide significant reductions in carbon
13 emissions. The Company's cast iron and bare steel replacement activities also have
14 resulted in lowering methane emissions. Finally, as mentioned previously, UGI Gas has
15 been actively implementing options that reduce its carbon footprint, including a program
16 that incorporates renewable natural gas into its distribution system and gas supply portfolio.

17
18 **Q. What efforts has UGI Gas made toward sustainability?**

19 A. UGI Gas increased its focus on sustainability as it pertains to the natural gas industry. To
20 support the expansion of sustainability overall, the Company has joined and is participating
21 in several collaboratives, councils, and associations related to improving the sustainability
22 of its natural gas sourcing practices. These include:

- 23 • The Natural Gas Supply Collaborative, an organization of natural gas purchasers,
24 provides technical expertise and guidance on emerging technologies and gas supply

1 initiatives. Members include utilities and power generators committed to
2 responsible practices for and safety of procuring natural gas supply.

- 3 • Our Nation’s Energy (“ONE”) Future, an industry group that focuses on the goal
4 of reducing methane emissions across the natural gas value chain.
- 5 • The American Biogas Council, the only national trade association representing the
6 entire U.S. biogas industry. The American Biogas Council focuses on the biogas
7 supply chain and is dedicated to maximizing the production and use of biogas from
8 organic waste.
- 9 • The Coalition for Renewable Gas, a public policy advocate and education platform
10 for RNG in North America.
- 11 • NextGenGas Coalition, a collaborative effort to facilitate external engagement and
12 educational opportunities to accelerate the successful advancement of the
13 NextGenGas marketplace.

14 The Company plans to continue to enhance and expand its ESG initiatives aimed at
15 lowering methane and greenhouse gas emissions.

16
17 **Q. Please describe the Company’s community engagement efforts.**

18 A. Each year, UGI Gas invests more than \$1.0 million to support education improvement
19 programs across the Company’s service territory. UGI Gas also supports: childhood
20 literacy; enhanced “STEM” (science, technology, engineering and math) curriculum in
21 elementary schools; funding for technical training programs for high school students; and
22 programs that provide support and mentoring for women and minority engineering
23 students. UGI Gas employees also commit significant personal time and resources to
24 support community initiatives. UGI Gas’s employees are eligible for 16 paid hours of

1 volunteer time per year per the Company’s volunteer policy. For example, 394 UGI Gas
2 employees donated more than 31,000 hours combined of work and personal time to assist
3 their communities in 2020. Company time keeping records show that 99% of this
4 volunteer time was personal time volunteered by its employees; a strong demonstration of
5 the community commitment UGI Gas and its employees have across the Company service
6 territory. UGI (both Gas and Electric) employees also donated personal funds to better
7 their communities. More than 1,000 employees contributed a total of more than \$339,000
8 combined as part of the Company’s 2021 United Way campaign. Combined with
9 corporate contributions and retiree contributions, total support provided to United Way
10 agencies serving communities in the UGI Gas service territory in 2020 totaled more than
11 \$551,000. UGI Corp. was recently named an honoree of the 2021 Civic 50 Greater
12 Philadelphia by Philadelphia Foundation, in partnership with Points of Light and local
13 partners, for its superior corporate citizenship. In addition, UGI was named the Cogent
14 Syndicated 2021 Most Trusted Utility Brand and “2021 Easiest to do Business with” by
15 Escalent.

16
17 **Q. What actions has UGI Gas taken to address diversity and inclusion?**

18 A. UGI Gas is committed to fostering a more diverse and inclusive work environment, which
19 will provide a stronger and more cohesive workforce that ultimately provides improved
20 service to our customers. As part of this focus, UGI has implemented a Belonging,
21 Inclusion, Diversity and Equity (“BIDE”) initiative. BIDE was formed in 2020 to enhance
22 and expand UGI Gas’s efforts to be “part of the solution” in addressing systemic racism
23 and injustice in the communities in which it operates. Utilizing the Company’s core values
24 – safety, integrity, respect, responsibility, reliability, and excellence – UGI Gas has

1 implemented steps to model inclusive leadership and provide a culture in which employees
2 feel a sense of belonging. To effectively implement the objectives of BIDE, UGI Gas has
3 created a council that includes senior leadership dedicated to increasing inclusivity and
4 diversity in four core pillars of the business: Culture, Career, Community, and Commerce.
5 The BIDE initiative seeks to provide employees with a safe, welcoming, and inclusive
6 work environment, and shows the Company's commitment to enhancing its efforts to
7 attract, retain, and develop a more diverse team at UGI Gas.

8
9 **Q. What resources has the BIDE initiative provided to UGI employees?**

10 A. As part of its focus on creating a culture of inclusion, UGI's BIDE initiative has developed
11 three employee resource groups: Black Organizational Leadership and Development
12 ("BOLD"), Women's Impact Network ("WIN"), and the Veteran Employee Team
13 ("VET"). BOLD focusses on inclusion, equity, education, and empowerment for black
14 employees and will assist leadership with communication, talent recruitment and retention,
15 and promotion for black employees. BOLD drives professional development through
16 mentoring and sponsorship opportunities, increasing exposure through networking and
17 career development events. It also promotes cultural transformation by influencing
18 Company policies and procedures that can improve an employee's experience at UGI, as
19 well as the impact these policies and procedures have on customers and partners. WIN
20 fosters an environment for women to be recruited, retained, developed, and advanced as
21 leaders within the UGI Family of Companies. Membership in WIN offers exposure to
22 various professional development opportunities, including speaker series events, group
23 engagement activities, virtual group discussions, and partnerships with local organizations.
24 VET recruits and retains veterans and fosters goodwill towards veterans. Members include

1 Active Duty, Reserve, and National Guard veterans of the Army, Navy, Marines, Coast
2 Guard, and Air Force, their families, and partners committed to supporting military veteran
3 employees. These three groups provide support, mentorship, educational opportunities,
4 advocacy, and events to increase awareness and involvement and to grow the culture of
5 inclusion at UGI Gas.

6
7 **Q. What additional actions has UGI Gas taken as part of its BIDE initiative?**

8 A. In addition to employee resource groups, UGI Gas has continued to refine its efforts to hire
9 and retain diverse employees, including more senior level positions. This effort includes
10 consideration of a diverse slate of candidates for all director level or higher roles. BIDE
11 has also incorporated UGI's long-time focus on developing relationships with diverse
12 suppliers and vendors. The Company has continued its efforts to contract with Minority,
13 Women and Disabled Owned Businesses ("Diversity Spend"). Historically, UGI has
14 acquired diverse supply partners through various methods. The Company has implemented
15 employee education and training, utilized the support of relevant database tools,
16 incorporated diverse vendors into its requests for proposals ("RFP"), and provided
17 guidance on entering into agreements with diverse outfits.

18 In calendar year 2020, UGI Corp. began the centralization of the procurement
19 function of its various business units. This centralization will enable development of a
20 cohesive supplier diversity policy for UGI Gas and its affiliates, which will incorporate
21 supplier diversity spend goals. UGI Corp. has taken the initial step of creating a supplier
22 diversity team across all business units that will further this effort. UGI Corp. has also
23 named a supplier diversity executive to lead the program globally.

1 For 2021, Total Diversity Spend by UGI was in excess of \$59 million. In addition,
2 in November 2021, UGI served as the premier sponsor of the Pennsylvania Diversity
3 Coalition's inaugural supplier diversity summit for utilities. The event was designed to
4 forge relationships between minority business enterprises with non-diverse companies that
5 serve natural gas, electric and water utilities. Many of the participants agreed that
6 matchmaking events are critical in increasing accessibility to diverse businesses.

7
8 **Q. What benefits do a diverse workplace and supplier pool bring to UGI Gas customers?**

9 A. Diversity provides a variety of benefits that impact the service UGI Gas provides to its
10 customers. Workplaces that embrace diversity have been shown to have higher employee
11 engagement, which leads to increased productivity, innovation, and creativity. Diverse
12 work environments are better at bringing in top talent and retaining employees, which
13 should reduce costs associated with recruiting, onboarding and training new employees
14 over time. Having a diverse contingent of suppliers provides for resiliency in the supply
15 chain and increases the competition for UGI Gas's business, which can be expected to
16 lower prices and foster innovation. For these reasons, the Company's customers benefit
17 from the Company's diversity efforts, which are reflective of the communities we serve.

18
19 **Q. What do the Company's efforts in the above-referenced areas demonstrate?**

20 A. UGI Gas believes that the management efforts described above, and the other
21 improvements described by the UGI Gas witnesses in this proceeding, as well as the
22 Company's provision of safe and reliable service at reasonable rates, demonstrate UGI
23 Gas's commitment to safety, community partnership, and the provision of excellent
24 customer service. In total, these efforts support an additional upward adjustment of 0.20%

1 to the Company's equity return in recognition of its management effectiveness, which is
2 included in the 11.2% equity return requested in this proceeding.

3

4 **Q. Does this conclude your direct testimony?**

5 A. Yes, it does.

UGI GAS

EXHIBIT CRB-1

CHRISTOPHER R. BROWN

VICE PRESIDENT AND GENERAL MANAGER, RATES AND SUPPLY

UGI Utilities, Inc.

Vice President and General Manager, Rates and Supply (Denver, Pa.)	May 2019 - Present
Sr. Director- Operations South Region (Reading, Pa.)	July 2015- May 2019
Manager - Operations (Reading, Pa.)	July 2013 – July 2015
Director- Central Services (Reading, Pa.)	October 2010 – July 2013
Manager – Strategy Processes and Implementation (Reading, Pa.)	February 2010 – October 2010
Manager – Customer Accounting Services (Reading, Pa.)	May 2009 – February 2010
Marketing Manager – East Region (Allentown, Pa.)	April 2008 – May 2009

Amerigas Propane, Inc.

Market Manager (Stroudsburg, Pa.)	June 2005 to April 2008
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UGI Utilities, Inc.

Supervisor – Gas Supply and Transportation (Reading, Pa.)	September 2003 – June 2005
Distribution Superintendent (Harrisburg, Pa.)	September 2001 – September 2003
Staff Engineer – Commercial Marketing (Reading, Pa.)	September 1999 – September 2001
New Business Engineer (Allentown, Pa.)	June 1997 – September 1999

Education

MBA, Lebanon Valley College, Annville, Pa.
BS, Civil Engineering, Lehigh University, Bethlehem, Pa.

Previous testimony provided before the Pennsylvania Public Utility Commission:

Docket No. R-00050539	UGI Utilities Inc. - Annual 1307(f) Filing
Docket No. C-2015-2516051	Centre Park Historic District v. UGI Utilities, Inc.
Docket No. C-2016-2530475	City of Reading v. UGI Utilities, Inc.
Docket No. R-2019-3015162	UGI Utilities, Inc. Gas Division - Base Rate Case Proceeding
Docket No. R-2021-3023618	UGI Utilities, Inc. Electric Division - Base Rate Case Proceeding

UGI GAS STATEMENT NO. 2

TRACY A. HAZENSTAB

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Docket No. R-2021-3030218

UGI Gas Utilities, Inc. – Gas Division

Statement No. 2

**Direct Testimony of
Tracy A. Hazenstab**

Topics Addressed: **Uniform Rate Structure and Riders**
 Budget Process
 Revenue Requirement
 Operating Revenues and Expenses
 Compliance with Act 40 of 2016

Dated: January 28, 2022

1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Tracy A. Hazenstab. My business address is 1 UGI Drive, Denver,
4 Pennsylvania 17517.

5
6 **Q. By whom are you employed and in what capacity?**

7 A. I am employed by UGI Utilities, Inc. (“UGI”) as Principal Analyst, Rates. UGI is a wholly-
8 owned subsidiary of UGI Corporation (“UGI Corp.”). UGI has two operating divisions,
9 the Electric Division (“UGI Electric”) and the Gas Division (“UGI Gas” or the
10 “Company”), each of which is a public utility regulated by the Pennsylvania Public Utility
11 Commission (“Commission” or “PUC”).

12
13 **Q. What are your responsibilities as Principal Analyst, Rates?**

14 A. I am primarily responsible for various tariff filings and related computations for UGI Gas
15 and UGI Electric rate and regulatory filings before federal and state regulatory
16 commissions. As part of these responsibilities, I am responsible for budgeting/financial
17 planning for UGI, which is a joint effort with the Rates Department (preparing the revenue
18 and margin budgets) and the Financial Planning and Analysis Department (preparing the
19 operating and capital budgets). I report directly to the Director, Rates and Regulatory
20 Planning of UGI.

1 **Q. What is your educational background?**

2 A. I received an undergraduate degree in International Politics from Pennsylvania State
3 University.

4

5 **Q. Please describe your professional experience.**

6 A. Please see my resume, UGI Gas Exhibit TAH-1, which is attached to my testimony.

7

8 **Q. Have you testified previously before this Commission?**

9 A. Yes. Attached to my direct testimony is UGI Gas Exhibit TAH-1, which contains a list of
10 the Commission's proceedings in which I previously testified. Additional exhibits that I
11 am sponsoring are described below.

12

13 **II. PURPOSE OF TESTIMONY**

14 **Q. What is the purpose of your testimony?**

15 A. I am providing testimony on behalf of UGI Gas in support of the Company's proposed
16 revenue requirement. First, I explain the uniform rate structure that was achieved in the
17 Company's "2019 Base Rate Case"¹ and "2020 Base Rate Case" (Part III).² Second, I
18 provide an overview of the Company's principal accounting exhibits for the historic year
19 ended September 30, 2021 ("HTY"), future year ending September 30, 2022 ("FTY") and
20 the fully projected future test year ending September 30, 2023 ("FPFTY") (Part IV). Third,
21 I explain UGI Gas's budgeting processes (Part V). Fourth, I present UGI Gas's ratemaking

¹ *Pennsylvania Public Utility Commission (et al.) v. UGI Utilities, Inc. – Gas Division*, Docket No. R-2018-3006814 (the "2019 Base Rate Case").

² *Pennsylvania Public Utility Commission (et al.) v. UGI Utilities, Inc. – Gas Division*, Docket No. R-2019-3015162 (the "2020 Base Rate Case").

1 presentation for the FPFTY, including its revenues and operating expenses claims, and
2 certain pro forma adjustments (Part VI). The Company's rate proposal in this case is
3 predicated on its FPFTY exhibit, which demonstrates the need for a revenue increase of
4 \$82.7 million. I also address the Company's compliance with Act 40 of 2016 (Part VII).

5
6 **Q. Ms. Hazenstab, are you sponsoring any exhibits in this proceeding?**

7 A. Yes. In addition to UGI Gas Exhibit TAH-1 mentioned above, I am sponsoring UGI Gas
8 Exhibit A (Fully Projected), UGI Gas Exhibit A (Future), and UGI Gas Exhibit A
9 (Historic). Other Company witnesses present testimony in support of various portions of
10 these exhibits, including rate base (Vivian K. Ressler, UGI Gas Statement No. 3), operating
11 revenue (Sherry A. Epler, UGI Gas Statement No. 8), fair rate of return (Paul R. Moul,
12 UGI Gas Statement No. 6), depreciation expense (John F. Wiedmayer, UGI Gas Statement
13 No. 4), salary and wage adjustments (Christopher R. Brown, UGI Gas Statement No. 1),
14 and taxes (Nicole M. McKinney, UGI Gas Statement No. 7). I am also sponsoring certain
15 responses to the Commission's standard filing requirements, as indicated on the master list
16 accompanying this filing.

17
18 **III. UNIFORM RATE STRUCTURE AND RIDERS**

19 **Q. Prior to the 2019 Base Rate Case, did the Company have consolidated and uniform**
20 **distribution and purchased gas cost rates?**

21 A. No.

1 **Q. Please explain the rate structure that was approved by the Commission in the**
2 **Company's 2019 Base Rate Case and 2020 Base Rate Case.**

3 A. In the 2019 Base Rate Case proceeding, the Company proposed a consolidated revenue
4 requirement and a uniform rate structure to reflect its common management, common
5 practices/procedures, common financing, and common systems more accurately. The
6 Commission's Opinion and Order (entered on October 4, 2019) in the 2019 Base Rate Case
7 approved a settlement agreement among the major parties, which, among other things,
8 consolidated the Company's revenue requirement and moved most rate classes to uniform
9 distribution and purchased gas cost rates. In the Company's 2020 Base Rate Case, the
10 remaining unconsolidated distribution rates for rate classes N, NT, and DS were moved
11 closer to parity. In this proceeding, the Company proposes to complete the rate unification
12 process, as further described by UGI Gas witnesses Christopher R. Brown (UGI Gas
13 Statement No. 1) and Sherry A. Epler (UGI Gas Statement No. 8).

14

15 **IV. OVERVIEW OF PRINCIPAL ACCOUNTING EXHIBITS**

16 **Q. Please describe the principal accounting exhibits used to support UGI Gas's claims**
17 **in this proceeding.**

18 A. UGI Gas Exhibit A (Fully Projected) provides the calculation of the revenue requirement
19 for the FPFTY, including principal accounting exhibits, rate base claims, revenue at present
20 rates, operating expense claims, taxes and certain *pro forma* adjustments. The FPFTY
21 information is derived from UGI Gas's operating and capital budgets for the 12-month
22 period ending September 30, 2023. UGI Gas Exhibit A (Future) is the principal accounting
23 exhibit for the FTY, including certain *pro forma* adjustments. The FTY information is
24 derived from UGI Gas's operating and capital budgets for the 12-month period ending

1 September 30, 2022. UGI Gas Exhibit A (Historic) is the principal accounting exhibit for
2 the HTY, with appropriate ratemaking adjustments. The HTY information is derived from
3 the book accounting data for the 12-month period ended September 30, 2021. The future
4 and historic schedules are provided as a benchmark for comparison with the FPFTY claim,
5 which, as explained above, is the basis for UGI Gas's proposed revenue increase of \$82.7
6 million.

7
8 **Q. Please provide an overview of UGI Gas's principal accounting exhibits.**

9 A. As noted above, UGI Gas's claims in this case are based on UGI Gas Exhibit A (Fully
10 Projected). This presentation is comprised of four sections:

11 Section A summarizes UGI Gas's requested *pro forma* rate base, revenues, and
12 expenses at present rates and the calculation of its requested revenue increase.

13 Section B includes basic accounting data extracted from UGI Gas's financial,
14 accounting, operating and capital budgets, and other records. This data includes a
15 balance sheet, a statement of net operating income and test year revenues, a
16 schedule of expense items by cost element, and a tax expense calculation. Also
17 included are schedules showing UGI Gas's embedded cost of debt, year-end capital
18 structure and overall claimed rate of return.

19 Section C provides the elements of UGI Gas's rate base claim and how each
20 element of that claim is derived. UGI Gas's rate base includes utility plant in
21 service, gas storage inventory, cash working capital, materials and supplies
22 inventory, and offsets for accumulated depreciation, accumulated deferred income
23 taxes, and customer deposits.

1 Section D presents UGI Gas’s revenues and expenses on a *pro forma* ratemaking
2 basis. Necessary adjustments to budgeted levels of expense items and revenues are
3 summarized in Schedules D-1 through D-2 and detailed in the remaining schedules.
4 The resulting FPPTY expense and revenue levels are shown on Schedule D-3 and
5 were used to establish UGI Gas’s *pro forma* income at present and proposed rates
6 as set forth in Schedule A-1.

7
8 **Q. What information is included in UGI Gas Exhibits A (Historic) and A (Future)?**

9 A. UGI Gas Exhibits A (Historic) and A (Future) follow the format of UGI Gas Exhibit A
10 (Fully Projected), but reflect data for the fiscal year ended September 30, 2021, and the
11 fiscal year ending September 30, 2022, respectively. This information is provided to
12 comply with the Commission's filing requirements and provides a basis for comparing the
13 FPPTY claims with actual and projected results from the HTY and FTY.

14
15 **Q. What are the data sources for the UGI Gas Exhibit A (Future) and UGI Gas Exhibit**
16 **A (Historic)?**

17 A. This data is derived from UGI Gas’s books and records as well as its capital and operating
18 budgets. UGI Gas Exhibit A (Future) is based on adjusted budgeted data for the FTY. UGI
19 Gas Exhibit A (Historic) is based on adjusted experienced data for the HTY.

20
21 **V. BUDGETING PROCESS**

22 **Q. Please explain UGI Gas’s budgetary preparation and approval process.**

23 A. UGI Gas’s fiscal year begins on October 1 and ends on September 30 of the following year.
24 Preparation of the UGI Gas Operating Budget for the subsequent fiscal year begins during

1 the spring, *i.e.*, the budget process for the October 1, 2021 through September 30, 2022
2 fiscal year begins in the spring of 2021, with information being requested and incorporated
3 from all departments. Internal reviews and revisions occur throughout the spring and
4 summer before the final budget is approved by the UGI Board of Directors in September –
5 immediately prior to implementing the budget.

6 The revenue portion of the budget is a joint effort between the Marketing, and
7 Financial Planning and Analysis (“FP&A”) departments. The Marketing department
8 provides customer growth and attrition information by customer class along with specific
9 large commercial and industrial sales and revenue budget projections. The FP&A
10 department develops normalized usage per customer for core customer classes, annualized
11 sales, and total revenues (as further explained in the direct testimony of UGI Gas witness
12 Ms. Epler (UGI Gas Statement No. 8)). The number of customers by customer class is
13 determined using a wide range of factors, including trends in usage, the level of
14 applications and inquiries for service from existing customers, new construction, and shifts
15 in type of residence and customer mix. Usage per customer is developed by reviewing the
16 long-term usage trends and current and anticipated levels of operation. The budgeted
17 number of customers and usage per customer are combined to produce monthly budgeted
18 sales. The revenue budget is calculated by applying tariff rates for each customer class to
19 budgeted sales, plus an adjustment for unbilled revenue. The sales and revenue budget is
20 then reviewed with and approved by senior management.

21 Concurrently, the expense portion of the Operating Budget is prepared. Operating
22 and maintenance expenses are developed by each functional manager based upon review
23 of trends, monthly expenditure patterns, and new or changed programs. Employee levels

1 are reviewed, and appropriate staffing levels are set for the upcoming fiscal year. The
2 direct expense portion of the Operating Budget is submitted for review and approval by
3 senior management. UGI Gas's direct expenses are then consolidated with allocated
4 expenses from shared administrative and general functions within UGI and from other
5 affiliated companies providing shared services to UGI Gas to develop the budgeted
6 Statement of Operations. Allocated expenses in the Statement of Operations include
7 functions such as accounting, rates, gas supply, human resources, information systems,
8 payroll, and remittance processing, which are performed in accordance with PUC-
9 approved methods of allocation and affiliated interest arrangements or agreements.

10 The final Operating Budget is then submitted to UGI's President and Board of
11 Directors for their review and approval. Each element of the UGI Gas Operating Budget
12 is formulated by personnel with responsibilities specific to each aspect of the operation.
13 The first and primary use of the Operating Budget is as a working tool for the management
14 and planning of the business.

15 Operating personnel in each functional area prepare a detailed list of capital
16 projects. Each project is identified, described, and justified along with a breakdown of the
17 costs associated with it. These projects are presented to senior management, which reviews
18 them in terms of priority, capital availability, and strategic alignment with the operating
19 budget. After due consideration, the Capital Budget is set and presented, along with the
20 Operating Budget, to senior management in a series of review meetings. Additional
21 information concerning the factors considered in establishing the UGI Gas Capital Budget
22 is provided in the direct testimony of Vicky A. Schappell (UGI Gas Statement No. 5).

1 The UGI Gas Capital Budget is prepared in conjunction with the Operating Budget.
2 With the passage of Act 11 of 2012, UGI Gas has also instituted a process for establishing
3 an Operating Budget and Capital Budget for an additional fiscal year in the future, *i.e.*, the
4 FPFTY. This process is the same as outlined above; however, the starting point for the
5 additional year is the FTY budget. The FTY revenue budget is based on normalized
6 weather conditions, per customer usage trends, and projections concerning growth in
7 numbers of customers. Similarly, FTY budget expense amounts are adjusted for salary and
8 personnel increases, known program changes, and expense needs. For the capital budget,
9 known capital projects are included based on the process described above, and additional
10 assumptions are made for emergent new business opportunities and other operating and
11 capital expenditures based on past experience and current trends, as described in Ms.
12 Schappell's testimony (UGI Gas Statement No. 5).

13
14 **Q. Please explain how expenses from affiliated companies are treated to develop the**
15 **budgeted Statement of Operations.**

16 A. UGI Gas incurs costs for services provided by UGI Corp., and other affiliated companies,
17 in accordance with affiliated interest arrangements authorized by the Commission. UGI
18 also allocates or assigns costs between UGI Electric and UGI Gas. All costs that can be
19 identified as pertaining exclusively to an operating unit are billed directly to that unit.
20 Those costs that cannot be directly associated with the operation of an individual operating
21 unit are allocated to the various companies benefiting from the service. Allocations are
22 made by using a methodology applicable to the cost (*e.g.*, budgeted time allocations,
23 number of employees, etc.) or, if no one methodology is specific to the cost, by using a

1 formula referred to as the Modified Wisconsin Formula (“MWF”) or another reasonable
2 allocation methodology. The MWF or other allocation methodology achieve an equitable
3 distribution of common expenses based on the relative activity and size of each operating
4 unit to the total of all operating units, which benefit from the respective activities. Activity
5 is measured by total revenues and total operating expenses and size is measured by tangible
6 net assets employed (excluding acquisition goodwill).

7
8 **Q. How is the budget information used to support UGI Gas’s requested revenue
9 increase?**

10 A. This budget information is the starting point for UGI Gas’s claims and is adjusted as
11 appropriate to reflect new information gained since the completion of the budgeting
12 process and through application of other appropriate ratemaking principles.

13
14 **VI. REVENUE REQUIREMENT FOR THE FULLY PROJECTED FUTURE TEST**
15 **YEAR**

16 **Q. How is your discussion of UGI Gas’s FPFTY revenue requirement presentation
17 organized?**

18 A. In Section VI.A, I present a summary of UGI Gas’s FPFTY revenue requirement. In
19 Section VI.B., I discuss UGI Gas’s proposed rate base. In Section VI.C., I explain the
20 determination of UGI Gas’s revenues and operating expenses, depreciation, taxes other
21 than income taxes, income taxes, and the gross revenue conversion factor.

1 **A. FPFTY REVENUE REQUIREMENT SUMMARY**

2 **Q. How were the *pro forma* revenue increase and revenues at proposed rates established?**

3 A. This calculation is shown at a summary level on Schedule A-1, column 4, of UGI Gas
4 Exhibit A (Fully Projected). Lines 1-9 summarize the *pro forma* measure of value (rate
5 base). Lines 10-19 show *pro forma* revenues at present rates, *pro forma* expenses, taxes at
6 present rates, *pro forma* net operating income at present rates, and the calculated rate of
7 return at present rates. Lines 20-23 show the increase in net operating income required to
8 permit UGI Gas to earn its required overall rate of return of 7.96%. Application of the
9 Gross Revenue Conversion Factor (“GRCF”) on line 24 establishes the revenue increase
10 shown on line 25 needed to generate that net operating income. Column 4 of Schedule A-
11 1 shows the level of the revenue increase and the increase in expenses associated with the
12 revenue increase. Column 5 of Schedule A-1 shows the revenue, expenses, and rate base
13 at proposed rates, as well as the resulting rate of return of 7.96%.

14
15 **Q. What is the overall requested increase in revenue?**

16 A. The overall requested increase in revenue is \$82.7 million. This represents the difference
17 between the *pro forma* FPFTY revenue requirement of \$1.145 billion and the annual level
18 of operating revenues of \$1.063 billion under existing rates. These figures are shown on
19 line 13 of Schedule A-1 of UGI Gas Exhibit A (Fully Projected).

1 **B. FPFTY RATE BASE**

2 **Q. With reference to UGI Gas Exhibit A (Fully Projected), please discuss how the**
3 **Company’s specific rate base items are determined.**

4 A. UGI Gas’s rate base presentation is shown in UGI Gas Exhibit A (Fully Projected),
5 Schedule C-1. Schedule C-1 summarizes the UGI Gas rate base values for the FPFTY.
6 Column 1 indicates the schedule upon which the calculation of each of the rate base
7 elements is found. Columns 3 and 5 show the amounts at present and proposed rates,
8 respectively. UGI Gas’s total FPFTY rate base claim is \$3.169 billion. Please see the
9 direct testimony of Vivian K. Ressler (UGI Gas Statement No. 3) for a discussion of the
10 rate base components.

11
12 **C. FPFTY REVENUES AND EXPENSES**

13 **Q. How were revenues at present rates determined?**

14 A. Revenues at present rates were determined by adjusting the budgeted revenues to reflect
15 the anticipated change in the number of customers, the projected change in existing
16 customer usage, the roll-in of revenues from the Distribution System Improvement Charge
17 (“DSIC”), and other *pro forma* annualizing and normalizing ratemaking adjustments. The
18 net effect of these adjustments is shown in UGI Gas Exhibit A (Fully Projected), Schedule
19 D-5, and is discussed in the direct testimony of Sherry A. Epler (UGI Gas Statement No.
20 8).

1 **Q. Please provide an overview of UGI Gas’s principal accounting exhibits relative to**
2 **operating expense claims.**

3 A. UGI Gas’s principal accounting exhibit is UGI Gas Exhibit A (Fully Projected), which
4 includes a presentation for the FPFTY ending September 30, 2023. Section D of UGI Gas
5 Exhibit A (Fully Projected) presents UGI Gas’s claims and necessary adjustments to
6 budgeted levels of expense items and revenues. The *pro forma* adjustments related to
7 expense are summarized in Schedules D-3 and D-6 through D-34. These expense
8 adjustments are used, in part, to derive UGI Gas’s *pro forma* income at present and
9 proposed rates as set forth in Schedule D-1.

10 UGI Gas Exhibits A (Historic) and A (Future) follow the format of UGI Gas Exhibit
11 A (Fully Projected) but reflect data for the appropriate test years ending September 30,
12 2021 and 2022, respectively. This information is provided in accordance with the
13 Commission’s filing requirements and provides a basis for comparing UGI Gas’s FPFTY
14 claims with prior results.

15

16 **1. Summary**

17 **Q. Please describe Schedule D-1 of UGI Gas Exhibit A (Fully Projected).**

18 A. Schedule D-1 presents a summary income statement that includes UGI Gas’s claimed gas
19 revenues, expenses, and taxes at present and proposed rate levels. The direct testimony of
20 Sherry A. Epler (UGI Gas Statement No. 8) addresses the presentation of *pro forma*
21 revenues, adjustments thereto, and the supporting schedules. Schedule D-1 also shows the
22 proposed revenue increase of \$82.7 million on line 4 in column 2.

1 **Q. What is the level of net income at proposed rates?**

2 A. As shown on column 3, line 21, this amount is \$252.255 million. This represents a \$57.867
3 million increase from the level under current rates (\$194.387 million), as shown on line 21
4 in column 1 of Schedule D-1.

5
6 **Q. Please describe Schedule D-2.**

7 A. Schedule D-2 shows the development of the various line items found on Schedule D-1.
8 Column 2 contains the Company's budgeted level of revenues and expenses for the 12-
9 month period ending September 30, 2023. Column 3 shows adjustments to the column 2
10 figures, where applicable, to reflect various annualization and/or normalization
11 adjustments. Column 4 is the sum of columns 2-3. The amount of the revenue increase
12 and related expenses are shown in column 5 with the resulting revenues and expenses at
13 proposed rates shown in column 6.

14
15 **Q. Are there schedules showing the derivation of the adjustments shown in Schedule D-
16 2, column 3?**

17 A. Yes. The derivation of the various column 3 revenue adjustments is included in UGI Gas
18 Exhibit A (Fully Projected) in summary fashion on Schedule D-3, page 1, lines 1-13, and
19 then listed by individual adjustment on Schedule D-5. Customer charge and distribution
20 rate revenue adjustments for each customer class are shown on lines 1-5 of Schedule D-3.
21 Gas cost revenue adjustments for each customer class are shown on lines 6-10 and details
22 of other revenue adjustments are shown on lines 11-13 of Schedule D-3. Details for each
23 revenue adjustment are shown in Schedules D-5 (including supporting Schedule D-5A)

1 and are discussed in the direct testimony of witness Sherry A. Epler (UGI Gas Statement
2 No. 8). Regarding *pro forma* expenses, the derivation of the various adjustments is
3 summarized individually on pages 1-2 of Schedule D-3, lines 16-55. The details for these
4 adjustments are found in Schedules D-6 through D-31.

5
6 **2. Operating Expense**

7 **Q. How were the claimed operating expenses for the FPFTY determined?**

8 A. *Pro forma* FPFTY expenses are based on the budgeted level of expenses as a starting point.
9 The budgeted data, by FERC account, was then adjusted in accordance with Commission
10 precedent and generally accepted ratemaking principles to reflect a normal, ongoing level
11 of operations. Schedules supporting those adjustments are found in UGI Gas Exhibit A
12 (Fully Projected), Section D.

13
14 **Q. Does UGI Gas budget its operating expenses by FERC account?**

15 A. Yes, it does. UGI Gas budgets its operating expenses both by FERC account and by cost
16 element, such as payroll, employee benefits, rent, etc. UGI Gas uses historic data as a basis
17 for the distribution of expenses to each FERC account. This is shown in Schedule B-4 and
18 is the starting point to determine the FPFTY adjusted operating expenses shown on
19 Schedule D-3.

1 **Q. Were each of the *pro forma* adjustments reflected on Schedule D-3 also charged to an**
2 **appropriate FERC account?**

3 A. Yes. Each *pro forma* adjustment was calculated based on the appropriate cost element and
4 then distributed to FERC accounts directly or by using the ratio used to distribute the
5 budgeted cost for that element.

6
7 **Q. Does Schedule D-3 depict the *pro forma* expense adjustments using FERC accounts?**

8 A. Yes. These *pro forma* expense adjustments are presented by major FERC account
9 category. These adjustments are also shown in the Section D summary schedules.

10
11 **Q. Schedule D-3 to UGI Gas Exhibit A (Fully Projected) shows an adjustment to Gas**
12 **Costs in column 4. Please discuss this adjustment.**

13 A. The detail for this adjustment is shown in Schedule D-6. This adjustment is designed to
14 increase purchased gas cost expense by the same amount of the gas cost revenue adjustment
15 recommended in the direct testimony of Sherry A. Epler (UGI Gas Statement No. 8) and
16 as shown on Schedule D-5, column 4, lines 7-12. UGI Gas recovers its purchased gas costs
17 on a dollar-for-dollar basis with no profit through an automatic adjustment clause
18 mechanism pursuant to Section 1307(f) of the Public Utility Code. Therefore, the increase
19 in purchased gas costs of \$38.877 million equals the increase in gas cost revenue as
20 recommended by Ms. Epler. Thus, the purchased gas cost expense has no effect on net
21 operating income.

1 **Q. Please discuss the revenue adjustment, i.e., operations and maintenance fees, for a**
2 **renewable natural gas (“RNG”) interconnection on Schedule D-5B.**

3 A. Schedule D-5B, Column 3, shows a \$348,000 increase to revenue, which represents an
4 annual payment for operating and maintaining the RNG interconnection with Archaea
5 Energy’s Keystone Landfill in Dunmore, Pennsylvania that was not included in the budget.
6 The interconnect is necessary for the Company to receive converted biogas (i.e., RNG)
7 generated from Archaea’s facility. These payments began in December 2021.

8
9 **Q. Please discuss the Salaries and Wages adjustment shown on Schedule D-7 in the**
10 **amount of \$1.186 million.**

11 A. Schedule D-7, Column 4, shows a \$1.186 million increase to budgeted salaries and wages
12 to reflect end of FPFTY operating conditions. This adjustment annualizes payroll expense
13 and is distributed among the various cost accounts. Page 2 of Schedule D-7 shows the
14 development of this adjustment.

15
16 **Q. Please describe the annualization adjustment.**

17 A. This adjustment annualizes the effect of wage increases for unionized, exempt, and non-
18 exempt employees that will take place during the FPFTY. Schedule D-7, page 2, line 2
19 reflects the increased percentages for each classification of employee. Lines 3 through 5
20 indicate the percentage of the year for which the salary and wage increases are not reflected
21 in the budget.

1 **Q. How did you determine the split of the budgeted salaries among the various employee**
2 **classifications shown on Schedule D-7?**

3 A. The split of the budgeted salaries among the various classifications shown on Schedule D-
4 7, page 1, was determined using the allocations of labor and headcount for Operating and
5 Maintenance expense in the budget. These employee groupings are the same groupings
6 utilized in developing the labor budget. These categories were used in UGI Gas's
7 budgeting process for the operating expense portion of salaries and wages.

8
9 **Q. Are there other salary and wage adjustments shown on Schedule D-7?**

10 A. Yes. Schedule D-7, Column 2 shows a total adjustment to salaries and wages in the amount
11 of \$2,385,000, which consists of three separate adjustments. The first adjustment of
12 \$1,148,000 for salary increases and \$51,000 for incremental incentive bonus compensation
13 is presented on Schedule D-9. It aligns salaries for specific positions with relevant industry
14 pay-scales. This adjustment is discussed in more detail in the direct testimony of
15 Christopher R. Brown (UGI Gas Statement No. 1). The second adjustment of \$643,000 on
16 Column 2, line 4, is presented on Schedule D-17. It represents twenty (20) unbudgeted
17 positions for field operations. These positions are needed for succession planning for field
18 operations roles. This adjustment is discussed in more detail in the direct testimony of
19 Timothy J. Angstadt (UGI Gas Statement No. 9). The final adjustment for \$543,000 in
20 Column 2, line 8, is also presented on Schedule D-9 (at Column 1, lines 6 plus 8). It
21 represents the addition of five (5) new positions to implement Transportation Security
22 Administration ("TSA") Security Directives 2021#1 and 2021#2. This adjustment is
23 discussed in more detail in the direct testimony of Christopher R. Brown (UGI Gas
24 Statement No. 1).

1 **Q. What adjustments are shown on Schedule D-8?**

2 A. Schedule D-8 represents an adjustment in the amount of \$3.310 million for environmental
3 remediation expense. The adjustments are described in further detail in the direct
4 testimony of Vivian K. Ressler (UGI Gas Statement No. 3).

5
6 **Q. Please describe the salary and wage adjustments shown in Schedule D-9.**

7 A. The salary and wage adjustments are discussed in the direct testimony of Christopher R.
8 Brown (UGI Gas Statement No. 1). The first adjustment, which is shown on Schedule D-
9 9, Column 1, line 4, relates to budget modifications the Company is making as a result of
10 a recent compensation benchmarking review that focused on how UGI Gas may continue
11 to remain productive in an increasingly competitive labor market. The \$1.32 million
12 adjustment on Schedule D-9, Column 2, line 5, reflects an incremental increase in salary,
13 bonus, and benefit costs. The Company calculated the Benefits component (Schedule D-
14 9, Column 1, line 4) by applying 10% to the Compensation Benchmark Adjustment
15 Subtotal (*i.e.*, $10\% \times \$1,199,000 = \$120,000$).

16 The second adjustment, which is shown on Schedule D-9, Column 1, line 7, in the
17 amount of \$49,000, is related to the TSA Security Directives discussed above. In addition
18 to the \$543,000 adjustment for the five salaried positions needed to comply with the new
19 TSA Directions shown above (Schedule D-9, Column 1, lines 6 and 8), the Company is
20 making another adjustment to account for the employee benefits associated with the five
21 (5) new positions (in the amount of \$49,000), which is shown on Schedule D-9, line 7.
22 These additional benefit expenses were calculated using an average per employee benefit
23 cost of \$9,702 per each of the 5 positions. Employee benefits were not included in the
24 calculation of salaries associated with these employees in Schedule D-7.

1 **Q. Please discuss Schedule D-10, which shows an adjustment for Rate Case Expense.**

2 A. Lines 1 through 3 show the rate case expense that UGI Gas expects to incur in this case of
3 \$1.055 million. That amount is then normalized over a one-year period. The budgeted
4 amount of rate case expense in the FPFTY was \$1 million. The budget was increased by
5 \$55,000 as shown in Column 3, line 8 to reflect more current costs.

6
7 **Q. What is the nature of the adjustments shown on Schedule D-11?**

8 A. Schedule D-11 represents adjustments in the amount of \$2.176 million for uncollectible
9 expense. The adjustments are described in further detail in the direct testimony of Vivian
10 K. Ressler (UGI Gas Statement No. 3).

11
12 **Q. Please explain the adjustment shown on Schedule D-12.**

13 A. Schedule D-12 represents an adjustment in the amount of \$92,000 to recover costs incurred
14 to implement the Company's Emergency Relief Program ("ERP"), which was established
15 in Docket No. R-2019-3015162. The adjustment is explained in further detail in the direct
16 testimony of Vivian K. Ressler (UGI Gas Statement No. 3).

17
18 **Q. What is the nature of the adjustment shown on Schedule D-13?**

19 A. Schedule D-13 represents adjustments in the amount of \$1.883 million for costs to comply
20 with OSHA/Emergency Temporary Standard ("ETS") directives related to COVID-19.³
21 These adjustments are explained in further detail in the direct testimony of Vivian K.
22 Ressler (UGI Gas Statement No. 3).

³ OSHA, COVID-19 Vaccination and Testing; Emergency Temporary Standard, Docket No. OSHA-2021-0007 (effective November 5, 2021).

1 **Q. Please explain the adjustment in the amount of \$8.388 million shown on Schedule D-**
2 **14.**

3 A. Schedule D-14 represents an adjustment in the amount of \$8.388 million for pension
4 benefit expense. This adjustment is described in further detail in the direct testimony of
5 Vivian K. Ressler (UGI Gas Statement No. 3).

6
7 **Q. Please discuss the *pro forma* adjustment on Schedule D-15 for Injuries and Damages.**

8 A. Schedule D-15 represents an adjustment in the amount of (\$670,000) for injuries and
9 damages. This adjustment is described in further detail in the direct testimony of Vivian
10 K. Ressler (UGI Gas Statement No. 3).

11
12 **Q. Please discuss the Customer Accounts Expense Adjustment on Schedule D-15.**

13 A. This adjustment includes a component to recover unbudgeted interest on customer
14 deposits. Further discussion on customer deposits can be found in the direct testimony of
15 Vivian K. Ressler (UGI Gas Statement No. 3).

16
17 **Q. The Customer Accounts Expense Adjustment on Schedule D-15 shows a \$972,000 cost**
18 **item for Interest on Customer Deposits at line 10. Please explain.**

19 A. The Company is required to pay interest on Customer Deposits that it holds in accordance
20 with its tariff requirements. As this is a typical business expense, the Company has added
21 this amount to its expense claim that is otherwise not reflected in the operations budget. It
22 is calculated by using the average level of customer deposits anticipated for the FPFTY
23 (*i.e.*, \$21.600 million) times the required interest rate (4.50 percent) anticipated for the

1 FPPTY, as published by the Pennsylvania Department of Revenue and as required under
2 the Company's tariff.

3
4 **Q. Please discuss the Rent Expense Adjustment on Schedule D-15.**

5 A. An adjustment in the amount of \$565,000 recovers unbudgeted rent expense associated
6 with the Auburn Capacity Lease Agreement approved by Secretarial Letter issued by the
7 Commission at Docket No. G-2021-3028753 on November 22, 2021. This amount pertains
8 to an agreement to lease additional capacity for a Rate XD customer and will be directly
9 assigned to the customer in the Company's cost of service study. Please see the direct
10 testimony of Christopher R. Brown (UGI Gas Statement No. 1) for additional detail on this
11 agreement.

12
13 **Q. Please discuss the *pro forma* adjustment on Schedule D-16 for Universal Service
14 expense.**

15 A. This adjustment normalizes the amount of Universal Services Program ("USP") expense
16 recovered through the Company's USP Rider based on the level of the Universal Service
17 Rider charge effective at the time of the Company's filing in this matter. The USP Rider
18 recovers the Company's Customer Assistance Program ("CAP") Credits, Pre-Program
19 Arrearages, third party administrator expense, LIURP expense, and administrative costs
20 associated with its Project Share program. The Company's claim represents the ongoing
21 normalized level of costs based on anticipated levels of CAP program participation. This
22 adjustment increases the Company's budgeted expense by \$548,000, to align the
23 Company's current USP Rider charge. As the USP Rider is a fully reconcilable rider, the

1 USP adjustment assures that expenses related to the existing rider are aligned with revenues
2 and that no impact related to USP flows through to the revenue requirement calculation.
3 Please see the direct testimony of Ms. Epler (UGI Gas Statement No. 8) for additional
4 discussion of the USP Rider.

5
6 **Q. Please describe the adjustment on Schedule D-17.**

7 A. The adjustment shown on Schedule D-17, Column 2, line 2, in the amount of \$124,000 is
8 for the employee benefits for the twenty (20) new positions. These additional benefit
9 expenses were calculated using an average per employee benefit cost of \$9,702. This
10 amount was then allocated to capital expense and operations expense.

11
12 **Q. Please explain the adjustment for Energy Efficiency and Conservation (“EE&C”)
13 Programs shown on Schedule D-19.**

14 A. As with the USP Rider adjustment discussed above, this adjustment in the amount of
15 \$3.480 million aligns the amount of EE&C expense with the EE&C Rider charge (based
16 on the level of the EE&C Rider charges effective at the time of the Company’s filing in
17 this matter). The EE&C Rider recovers the Labor and Administrative, Prescriptive
18 Program, Retrofit Program, New Construction Program, Custom Program, Legal and
19 Consulting, Combined Heat and Power, and other Costs associated with the Company’s
20 Energy Efficiency and Conservation Program. This adjustment increases the Company’s
21 budgeted expense to align with the Company’s current EE&C charge. As the EE&C Rider
22 is a fully reconcilable rider, the EE&C adjustment assures that expenses related to the
23 existing rider are aligned with revenues and that no impact related to EE&C flows through

1 to the revenue requirement calculation. Please see the direct testimony of Ms. Epler (UGI
2 Gas Statement No. 8) for additional discussion of the EE&C Rider.

3
4 **3. Depreciation Expense**

5 **Q. How was the level of depreciation expense for the FPFTY determined?**

6 A. UGI Gas's depreciation study is set forth in UGI Gas Exhibit A (Fully Projected) and shows
7 the determination of *pro forma* depreciation expense. This study uses the FPFTY plant in
8 service and the applicable depreciation rates, service lives, and procedures. A summary of
9 the budgeted depreciation expense and adjustments thereto is found in UGI Gas Exhibit A
10 (Fully Projected), Schedule D-21, and is further explained in the direct testimony of John
11 F. Wiedmayer (UGI Gas Statement No. 4).

12
13 **Q. Please describe the depreciation expense adjustments shown on Schedule D-21.**

14 A. UGI Gas witness Mr. Wiedmayer (UGI Gas Statement No. 4) presents the depreciation
15 analysis that serves as the foundation of the depreciation adjustment. The adjustment for
16 depreciation expense of \$2.099 million set forth on Schedule D-21, page 2, column 3, line
17 64, annualizes budgeted FPFTY depreciation expense to calculate an entire year's worth
18 of depreciation on plant in service (as of the end of the FPFTY). This schedule also shows
19 a decrease to the net negative salvage amortization of \$39,000. The total annualized
20 depreciation expense for the FPFTY, net of costs charged to clearing accounts and net
21 salvage amortization, is \$125.537 million (as shown on Schedule D-3, page 2, column 13,
22 line 54).

1 **4. Taxes other than Income Taxes**

2 **Q. Please describe the taxes other than income adjustments shown on Schedule D-31.**

3 A. Schedule D-31 contains the details for taxes other than income adjustments. The
4 adjustments to the payroll tax expenses on lines 4-6 are calculated by multiplying the ratio
5 of tax expense to payroll expense included in the FPFTY budget by the amount of the
6 payroll adjustment derived in Schedule D-7. This produces an adjustment to the amount
7 of social security, Federal Unemployment Tax (“FUTA”) and State Unemployment Tax
8 (“SUTA”) expense in the amount of \$298,000. The calculation of these adjustments is
9 shown in more detail on Schedule D-32. The other components of this schedule are
10 supported in the testimony of Nicole M. McKinney (UGI Gas Statement No. 7).

11
12 **5. Income Taxes**

13 **Q. What is the purpose of Schedules D-33 and D-34?**

14 A. These schedules show the derivation of the Company’s pro forma income tax expense
15 claim, including the normalization of the effects of accelerated tax depreciation, as
16 discussed in the direct testimony of Nicole M. McKinney (UGI Gas Statement No. 7).

17
18 **6. Gross Revenue Conversion Factor**

19 **Q. What is the purpose of Schedule D-35?**

20 A. Schedule D-35 shows the calculation of the Gross Revenue Conversion Factor used on
21 Schedule A-1 to calculate the level of revenues required to achieve the net operating
22 income required to generate the rate of return supported by the direct testimony of Paul R.
23 Moul (UGI Gas Statement No. 6). These additional revenues are required to recognize that

1 uncollectible accounts expense vary with the level of revenue and to recognize the
2 additional state and federal income taxes attributable to the proposed rate increase.

3
4 **VII. ACT 40 REQUIREMENTS**

5 **Q. Ms. Hazenstab, are you familiar with Section 1301.1 of the Public Utility Code, which**
6 **is otherwise known as Act 40 of 2016?**

7 A. Yes, I am. The legislation, among other things, eliminated the use of consolidated tax
8 savings adjustments for setting rates for public utilities in Pennsylvania. It requires a utility
9 to demonstrate that it shall use at least 50 percent of what otherwise would have been the
10 revenue requirement associated with a consolidated tax savings adjustment to support
11 reliability or infrastructure related to the rate-base eligible capital investment and that the
12 other 50 percent shall be used for general corporate purposes. My understanding is
13 predicated in part on the advice of counsel.

14
15 **Q. Has the Company calculated what would have been the ratemaking level of a**
16 **consolidated tax savings adjustment for UGI Gas prior to the enactment of Section**
17 **1301.1 of the Public Utility Code?**

18 A. Yes, Company witness Nicole M. McKinney presents such a calculation in her testimony
19 (UGI Gas Statement No. 7). The Company's three-year average of consolidated taxable
20 income was \$43.735 million. Based on Ms. McKinney's calculation of the net positive
21 taxable income of the three merged entities, the amount of consolidated tax savings
22 adjustment applicable to UGI Gas would have been \$2.553 million.

1 **Q. Does the Company’s rate base claim in this case support the conclusion that it is using**
2 **at least 50 percent of that revenue requirement amount (associated with a**
3 **consolidated tax savings adjustment) to support reliability or infrastructure related**
4 **capital investments?**

5 A. Yes, as included in Schedule C-2 and as discussed in the direct testimony of Ms. Schappell
6 (UGI Gas Statement No. 5), UGI Gas’s *pro forma* capital additions for reliability or
7 infrastructure projects in the FTY is \$289 million and for the FPFTY is \$311 million. This
8 expenditure level is greater than 50% of the amount of what would have been the
9 consolidated tax savings adjustment under prior ratemaking principles.

10
11 **Q. Does the Company’s rate base claim in this case support the conclusion that it is using**
12 **at least 50 percent of that revenue requirement amount to support general corporate**
13 **purposes?**

14 A. Yes. The Company’s general corporate purpose expense will also exceed 50% of the tax
15 benefit resulting from elimination of the consolidated tax adjustment. Indeed, the
16 Company anticipated an operating expense budget of more than \$760 million in operating
17 expenditures to be used to render gas distribution service; 50 percent of the consolidated
18 tax adjustment revenue requirement would equate to only \$1.825 million.

19
20 **Q. Is the Company’s presentation in this filing consistent with the Commission’s and the**
21 **Commonwealth Court’s treatment of PA Act 40 of 2016?**

22 A. Yes. The Company’s presentation in this filing is consistent with the Commission’s
23 determination on PA Act 40 in the UGI Electric 2018 Base Rate Proceeding at Docket No.

1 R-2017-2640058, and the Commonwealth Court's order affirming the Commission's order
2 on appeal.

3

4 **Q. Does this conclude your direct testimony?**

5 A. Yes, it does.

UGI GAS

EXHIBIT TAH-1

Tracy A. Hazenstab
Principal Analyst - Rates

Work Experience:

2008 - Current	Rates Analyst – II/Sr/Principal (Progressive Positions) UGI Utilities, Inc., Denver, PA
2004 - 2008	Business Analyst PPL Gas, Lewistown, PA
2001 - 2004	Contact Center Analyst PPL Gas, Lock Haven, PA

Previous Testimony:

2014 1307(f) Proceeding:	Docket No. R-2014-2543523
2015 1307(f) Proceedings:	Docket Nos. R-2015-2480937, R-2015-2480934
2016 1307(f) Proceedings:	Docket Nos. R-2016-2543311, R-2016-2543314
2018 1307(f) Proceedings:	Docket Nos. R-2018-3001631, R-2018-3001632
2019 1307(f) Proceeding:	Docket No. R-2019-3009647
2020 1307(f) Proceeding:	Docket No. R-2020-3019680
UGI Electric EEC Petition:	Docket No. R-2019-3004144

Education:

B.A. in International Politics, Pennsylvania State University, 1996

UGI GAS STATEMENT NO. 3

VIVIAN K. RESSLER

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Docket No. R-2021-3030218

UGI Utilities, Inc. – Gas Division

Statement No. 3

**Direct Testimony of
Vivian K. Ressler**

Topics Addressed:

- Accounting Process and Historic Costs**
- Rate Base**
- Operating Expense Adjustments**
- Capital Treatment of Certain**
- Information Technology Costs**
- COVID-19 Pandemic Costs**
- Costs for Federal Mandates Regarding**
- COVID-19 Vaccination & Testing**

Dated: January 28, 2022

1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Vivian K. Ressler. My business address is 1 UGI Drive, Denver, Pennsylvania
4 17517.

5
6 **Q. By whom are you employed and in what capacity?**

7 A. I am employed by UGI Utilities, Inc. (“UGI”) as Senior Manager Plant and Regulatory
8 Accounting. UGI is a wholly-owned subsidiary of UGI Corporation (“UGI Corp.”). UGI
9 has two operating divisions, the Gas Division (“UGI Gas” or the “Company”) and the
10 Electric Division (“UGI Electric”), each of which is a public utility regulated by the
11 Pennsylvania Public Utility Commission (“Commission” or “PUC”).

12
13 **Q. What are your responsibilities as Senior Manager Plant and Regulatory Accounting?**

14 A. I have responsibility for UGI’s plant accounting and regulatory accounting processes. I
15 lead a team of accountants responsible for maintaining complete and accurate plant
16 accounting records, and for preparing and submitting certain regulatory filings with the
17 PUC and the Federal Energy Regulatory Commission (“FERC”). My duties also include
18 the coordination of these functions with UGI’s Controller and Chief Financial Officer as
19 well as financial accounting and reporting personnel at UGI Corp.

20
21 **Q. Please describe your educational background and work experience.**

22 A. My full educational background and work experience are set forth in my resume attached
23 as UGI Gas Exhibit VKR-1.

1 **Q. Have you testified previously before this Commission?**

2 A. Yes. I provided testimony in the 2020 Gas Base Rate Case proceeding for UGI Gas at
3 Docket No. R-2019-3015162 and the 2021 Electric Base Rate Case proceeding for UGI
4 Electric at Docket No. R-2021-3023618.

5
6 **Q. What is the purpose of your testimony?**

7 A. I am providing testimony on behalf of UGI Gas in support of the Company's rate case
8 accounting methodology. First, I will explain UGI Gas's accounting processes, which were
9 used to develop the actual book accounting results, which are the basis for the Company's
10 historic test year ended September 30, 2021 ("HTY") (Part II).¹ Second, I will present the
11 Company's claim for rate base in this proceeding using a fully projected future test year
12 ("FPFTY") methodology. (Part III). Next, I will discuss certain operating expense
13 adjustments (Part IV) and the Company's accounting for certain Information Technology
14 ("IT") costs (Part V). Then, I will discuss the Company's COVID-19 Pandemic Costs
15 (Part VI). Finally, I will address certain costs directly attributable to compliance with: (1)
16 the Emergency Temporary Standard ("ETS") for COVID-19 vaccination and testing issued
17 by the Occupational Safety and Health Department of Labor ("OSHA")²; and (2) President
18 Biden's COVID-19 Action Plan per Executive Order 14042 (Part VII).

¹ The budgets for the future test year ending September 30, 2022 ("FTY") and the FPFTY ending September 30, 2023 are discussed in the direct testimony of Tracy A. Hazenstab (UGI Gas St. No. 2).

² See 86 Fed. Reg. 61,402, Docket No. OSHA-2021-0008 (Nov. 5, 2021).

1 **Q. Ms. Ressler, are you sponsoring any exhibits in this proceeding?**

2 A. Yes. I am sponsoring UGI Gas Exhibit VKR-1. In addition, I am sponsoring those portions
3 of UGI Gas Exhibit A (Fully Projected), Exhibit A (Future) and Exhibit A (Historic), which
4 address rate base and certain adjustments to rate base and operating expenses discussed
5 later in my testimony. I am also sponsoring those responses to the Commission’s standard
6 filing requirements as stated on the master list accompanying this filing.

7

8 **II. ACCOUNTING PROCESS AND HISTORIC COSTS**

9 **Q. How are the accounting records of UGI Gas maintained?**

10 A. The accounting records of UGI Gas are kept in accordance with generally accepted
11 accounting principles (“GAAP”) and the FERC’s Uniform System of Accounts as required
12 under the provisions of 52 Pa. Code § 59.42. The Company also maintains a continuing
13 property records system in accordance with the requirements of 52 Pa. Code § 59.46.

14

15 **Q. Are the books and records of UGI Gas subject to audit?**

16 A. Yes. The books and records of UGI Gas are audited by its internal auditors. In addition,
17 UGI Gas’s books and records are included in Company-wide audits of UGI, performed by
18 its external auditor, Ernst & Young, LLP. The Company’s books and records are further
19 subject to audit by the PUC.

1 **Q. Do the continuing property records of UGI Gas reflect the original cost value of**
2 **property?**

3 A. Yes, they do. UGI Gas's plant in service, plant additions, retirements, and book
4 adjustments have been recorded on an original cost basis in accordance with GAAP and
5 the Uniform System of Accounts requirements.

6
7 **Q. What process does UGI Gas follow to assure that property reflected in its plant**
8 **accounts is in service?**

9 A. UGI Gas's capital project managers create records that document the costs of projects
10 and/or asset purchases. When a capital project or asset is placed into service, the project
11 manager records the in-service date and the retirement detail for any related assets that are
12 taken out of service. Then, the record is provided to accounting personnel. This
13 information is transferred through accounting entries into the appropriate UGI Gas plant
14 property accounts, subject to review by authorized individuals who approve the entries and
15 further review by internal and external auditors.

16
17 **Q. How was the Company's accounting process used in preparing the Company's filing?**

18 A. The above-described accounting process was used to prepare the principal accounting
19 exhibits that support UGI Gas's claim in this proceeding. As discussed in the direct
20 testimony of Company witnesses Christopher R. Brown (UGI Gas Statement No. 1) and
21 Tracy A. Hazenstab (UGI Gas Statement No. 2), the Company's claim is based on the
22 FPFTY. The accounting data for the FPFTY was derived from UGI Gas's operating and
23 capital budgets for the 12 months ending September 30, 2023, as shown in UGI Gas Exhibit

1 A (Fully Projected). The accounting data for the future test year (“FTY”) was derived from
2 UGI Gas’s operating and capital budgets for the 12 months ending September 30, 2022, as
3 shown in UGI Gas Exhibit A (Future). The accounting data for the HTY was derived from
4 UGI Gas’s books and records for the 12 months ending September 30, 2021, as shown in
5 UGI Gas Exhibit A (Historic).

6
7 **III. FULLY PROJECTED FUTURE TEST YEAR RATE BASE**

8 **Q. With reference to UGI Gas Exhibit A (Fully Projected), please discuss how the**
9 **Company’s specific rate base items are determined.**

10 A. UGI Gas’s rate base presentation is shown in UGI Gas Exhibit A (Fully Projected),
11 Schedule C-1. It summarizes the UGI Gas rate base values for the FPFTY. Column 1
12 provides the schedule where the calculation of each of the rate base elements is found.
13 Columns 3 and 5 show the amounts at present and proposed rates, respectively. UGI Gas’s
14 total FPFTY rate base claim—net of deductions for accumulated depreciation,
15 accumulated deferred income taxes and customer deposits—is \$3.169 billion. Except
16 where otherwise noted, I will describe each of the rate base elements in greater detail
17 below.

18
19 **1. Utility Plant in Service**

20 **Q. Please explain how UGI Gas determined its FPFTY rate base value for plant in**
21 **service.**

22 A. UGI Gas’s claim for utility plant in service represents the sum of the closing plant balances
23 as of September 30, 2021, and budgeted additions placed in service for the years ending
24 September 30, 2022 and September 30, 2023, less expected FTY and FPFTY plant

1 retirements. The direct testimony of Company witness Vicky A. Schappell (UGI Gas
2 Statement No. 5) discusses the capital addition planning process and the basis for the
3 additions placed in service in the FTY and FPFTY.

4
5 **Q. Please describe Schedule C-2 to UGI Gas Exhibit A (Fully Projected).**

6 A. This schedule presents UGI Gas's FPFTY claim of \$5.042 billion for used and useful gas
7 utility plant in service on page 2, column 2, line 64. That amount is reflected on line 1 of
8 the measure of value summary on Schedule C-1. Gas utility plant enables UGI Gas to
9 provide safe and reliable gas service to its customers.

10
11 **Q. How was the gas utility plant in service amount of \$5.042 billion shown on Schedule
12 C-2, page 2, column 2, line 64 determined?**

13 A. As noted above, this amount is based on the *pro forma* balance as of September 30, 2023.
14 The amount includes: (1) utility plant in service as of September 30, 2021 and (2) budgeted
15 capital expenditures expected to be placed in service for the 12-month periods ending
16 September 30, 2022 and 2023, less expected plant retirements during the same period. UGI
17 Gas witness Vicky A. Schappell (UGI Gas Statement No. 5) also discusses the basis for
18 the plant additions in the FTY and FPFTY.

19
20 **Q. Please describe the information included on Schedule C-2, page 3.**

21 A. This information provides a summary of UGI Gas's *pro forma* claim for utility plant in
22 service by category. Column 2 shows the FPFTY ending balances based on the placed in-

1 service budget; column 3 shows the net effect of the various plant adjustments, if any; and
2 column 4 provides the adjusted FPFTY plant in service.

3
4 **Q. What information is included on Schedule C-2, pages 4 and 5?**

5 A. Columns 2 and 3 on these pages show the gas plant in service balances for 2022 and 2023
6 at the FERC account level, based on the placed in service budget. Column 5 provides the
7 ending FPFTY plant balance at the FERC account level.

8
9 **Q. Where are plant in service additions shown?**

10 A. Pages 6 and 7 of Schedule C-2 provide actual (for the HTY) and projected (for the FTY
11 and FPFTY) plant in service additions. The Company categorizes plant in service additions
12 by FERC account.

13
14 **Q. Where are plant retirements shown?**

15 A. Pages 8 and 9 of Schedule C-2 provide actual (for the HTY) and projected (for the FTY
16 and FPFTY) plant retirements. Retirements for most plant accounts were projected by
17 plant account. The Company applied the average retirement rate, as a percent of additions,
18 for the five fiscal years 2017 through 2021, to the FPFTY and FTY plant in service
19 additions. For certain plant accounts subject to amortization accounting, retirements are
20 recorded when a vintage is fully amortized. For these accounts, all units are retired when
21 the vintage is fully amortized.

1 **2. Accumulated Depreciation**

2 **Q. Please explain how UGI Gas determined its rate base deduction for accumulated**
3 **depreciation.**

4 A. UGI Gas started with accumulated depreciation as of September 30, 2021, added the
5 budgeted level of depreciation expense for the FTY and FPFTY, and calculated the impact
6 of the FTY and FPFTY plant retirements and a provision for net salvage as shown on
7 Schedule C-3. The depreciation rates and test year expense levels are discussed in the
8 direct testimony of John F. Wiedmayer (UGI Gas Statement No. 4), with the underlying
9 FPFTY depreciation analysis provided in UGI Gas Exhibit A (Fully Projected).

10
11 **Q. Please describe UGI Gas’s accumulated depreciation claim.**

12 A. UGI Gas’s accumulated depreciation claim is shown on Schedule C-3 of UGI Gas Exhibit
13 A (Fully Projected). This schedule presents the accumulated provision for depreciation as
14 of September 30, 2023, distributed among the various FERC accounts. The total amount
15 for accumulated depreciation, \$1.319 billion, is summarized on page 2, column 2, line 64,
16 of this schedule. That amount is reflected on line 2 of the measure of value summary on
17 Schedule C-1.

18 Page 3 of Schedule C-3 shows the *pro forma* FPFTY level of accumulated
19 depreciation distributed to the various plant categories. Pages 4 and 5 show the details of
20 the accumulated depreciation by FERC account for Fiscal Years 2022 (column 2) and 2023
21 (column 3) based on budget plus adjustments (column 4), if any, to arrive at the FPFTY
22 balance (column 5). Pages 6 and 7 show the cost of removal by FERC account and pages
23 8 and 9 show negative net salvage amortization by FERC account. Pages 10 and 11 include
24 the salvage amounts by FERC account. These amounts are included in the FPFTY

1 accumulated depreciation calculations. The amortization of negative net salvage was
2 calculated using a 5-year amortization schedule in accordance with Commission precedent.

3 4 **3. Cash Working Capital**

5 **Q. Please explain how UGI Gas determined its rate base value for cash working capital**
6 **(“CWC”).**

7 A. CWC is the capital requirement arising from the difference between (1) the lag in the
8 receipt of revenue for rendering service and (2) the lag in the payment of cash expenses
9 incurred to provide that service, as shown in Schedule C-1. A detailed analysis of UGI
10 Gas’s CWC requirements is provided in Schedule C-4.

11
12 **Q. Where is the CWC rate base value summarized?**

13 A. The CWC rate base value is summarized at Schedule C-4, page 1. The various components
14 of the working capital claim are listed on this page, along with a reference to the page
15 where the component is further detailed within Schedule C-4.

16
17 **Q. What data is shown on page 2 of Schedule C-4?**

18 A. Page 2 summarizes the derivation of UGI Gas’s revenue collection lag and overall expense
19 payment lag. The revenue lag days of 61.18 are shown on line 1. Expense lag days include
20 three categories of annual operating expenses: (1) payroll; (2) purchased gas costs; and (3)
21 other expenses. The expense lag days are shown for each component on lines 3-5, which
22 amount to 32.76 (on line 7). The net lag in the collection of revenue is 28.41 days as shown
23 on line 8. This number is then multiplied by the average daily operating expense balance
24 on line 9 to arrive at a base CWC amount for Operations and Maintenance (“O&M”)

1 expense of \$52.365 million on line 10. The average daily expense balance of \$1.843
2 million shown on line 9 is determined by dividing the total *pro forma* annual operating
3 expenses, excluding uncollectible accounts expense, of \$672.711 million as shown on line
4 6 of column 2, by the number of days in the year, or 365. I will describe the other
5 components of the CWC claim when I discuss the related schedules.

6
7 **Q. Please describe the revenue lag calculation shown on Schedule C-4, page 3.**

8 A. The Company's calculation for the total revenue lag days of 61.18 (line 23) consists of
9 several steps. First, the annual revenue (line 18, column 3) is divided by the average
10 month-end accounts receivable balances for the 13 months ended September 30, 2021 (line
11 17, column 2). This results in an accounts receivable turnover rate of 8.27 (line 19, column
12 4), which is equivalent to 44.14 lag days (line 20, column 5) (i.e., 365 divided by 8.27
13 accounts receivable turnover rate). As shown on lines 20-23, the payment portion of the
14 revenue lag is added to: (1) the 1.83-day lag between the meter reading day and the day
15 bills are sent out and recorded as revenue and accounts receivable by the Company
16 (appearing on line 21); and (2) the 15.21-day service lag (i.e., midpoint lag factor), which
17 is the time from the mid-point of the service period until the meter reading date (appearing
18 on line 22). This calculation results in a total revenue lag of 61.18 days.

19
20 **Q. How was the mid-point of the service period calculated?**

21 A. The mid-point of the service period is equal to the number of days in an average service
22 month (365 days divided by 12, or 30.4 days) divided by two (i.e., 15.21 days).

1 **Q. How are the payroll expense lag days for the CWC claim calculated?**

2 A. This calculation is shown on page 4 of Schedule C-4, lines 1-6. The payroll amounts shown
3 there reflect the payroll for the FPFTY, which is shown on Schedule D-7. The lag periods
4 for union and non-union payroll are shown separately on page 4 of Schedule C-4, lines 1-
5 2, with the same bi-weekly pay period. The lag days are calculated based on 14 days in the
6 pay period divided by 2 (for an average) with a 5-day payroll processing time period added,
7 resulting in a 12-day lag period.

8

9 **Q. How were the lag days associated with the purchased gas costs shown on Schedule C-
10 4, page 4, line 8 calculated?**

11 A. This calculation is shown on page 6 of Schedule C-4 and is based on a review of gas
12 purchases during the 12-month period of October 2020 through September 2021. The total
13 dollar amount of gas purchased during this period was \$374.258 million (on line 13,
14 column 2). The average payment lag was calculated by dividing the total dollar days for
15 purchased gas costs (or \$14.916 billion) by the total dollar amount of gas purchased (or
16 \$374.258 million), which equals 39.85 days (on line 14). The payment lag was determined
17 using the midpoint of the service period for each of the payments and the payment date for
18 each, averaged over the 12-month study period. The 39.85-day lag for purchased gas costs
19 is then brought forward to Schedule C-4, page 4, line 8 and Schedule C-4, page 2, column
20 3, line 4.

1 **Q. What are dollar days, and how were they used in the CWC calculation?**

2 A. Dollar days are the product of a payment amount multiplied by the number of days between
3 the invoice date or service date and the date that the payment clears the Company's bank.
4 The dollar days calculation is used to calculate a weighted average number of lag days for
5 both purchased gas costs (Schedule C-4, page 6) and general disbursements (Schedule C-
6 4, page 5).

7
8 **Q. How were the Other O&M Expense lag days, shown on Schedule C-4, page 4, line 22,
9 calculated?**

10 A. The calculation is shown on page 5 of Schedule C-4. The average payment lag for all
11 remaining expenses was derived from data over the HTY, as shown in more detail on page
12 5 of Schedule C-4. A summary list of all cash disbursements, including the invoice date,
13 the amount of the disbursement, the date the payment was made, and the type of
14 disbursement (for capital, commodity or expense), during each of these months was used.
15 As shown on page 5, lines 1-24, columns 1 and 2, each month's listing contained numerous
16 cash disbursements. Once the raw payment data was assembled, the dollar days for
17 expense purchases were determined by multiplying the amount of the disbursement by
18 either (i) the number of days from invoice date until bank clearance for wire and Automated
19 Clearing House ("ACH") payments, or (ii) the number of days from the invoice date until
20 check date, plus seven days (representing mail lag) for payments made by check.
21 Disbursements were eliminated if they were included in another calculation (e.g., gas
22 purchases) or were paid for capital items. After these adjustments, the average of the
23 expense lag days for each month shown on Schedule C-4, page 5, column 4, line 25,

1 resulted in a payment lag for general disbursements of 27.08 days. The 27.08- day lag for
2 general disbursements is then brought forward to Schedule C-4, page 4, line 22 and
3 Schedule C-4, page 2, column 3, line 5.

4
5 **Q. Please explain how the interest payment amount included on line 2 of Schedule C-4,**
6 **page 1 was determined.**

7 A. The calculation of this amount is shown on Schedule C-4, page 7. This calculation
8 measures the lag associated with the payment of interest on outstanding debt. The *pro*
9 *forma* annual interest expense shown on line 4 is divided by 365 to obtain the daily interest
10 expense of \$155,000 shown on page 7, line 5. That amount is then multiplied by the net
11 payment lag, resulting in a reduction to the working capital allowance of \$4.667 million as
12 shown on page 7, line 9 of Schedule C-4. This amount is then included on page 1, line 2
13 of Schedule C-4.

14
15 **Q. How was the tax payment lag for the working capital requirement, shown on line 3 of**
16 **Schedule C-4, page 1, determined?**

17 A. This calculation is shown on page 8 of Schedule C-4. Separate tax payment lag calculations
18 (for working capital) are made for federal income tax, state income tax, PA Property Tax
19 and Public Utility Realty Tax Act (“PURTA”) taxes. Each of these calculations is based
20 on anticipated FPFTY tax payments and an April 1 mid-point of annual service. The result
21 for each of these components is shown and summed in column 10 to derive the net working
22 capital allowance for tax payments of \$4.402 million.

1 **Q. How was the working capital allowance for prepaid expenses, shown on line 4 of**
2 **Schedule C-4, page 1, derived?**

3 A. That amount is calculated on page 9 of Schedule C-4 and represents the 13-month average
4 of actual pre-paid amounts for each month ended from September 2020 through September
5 2021. The 13-month average of total actual pre-paid amounts during that period is \$10.047
6 million.

7
8 **Q. What is the total amount of the Company's CWC claim?**

9 A. UGI Gas's claim for CWC is \$62.148 million. This amount is shown on Schedule C-4,
10 page 1, line 5; Schedule C-1, line 4; and on Schedule A-1, line 4.

11

12 **4. Gas Storage Inventory**

13 **Q. Please explain how the rate base value for gas storage inventory was determined.**

14 A. Gas storage inventory represents gas volumes stored in facilities or in storage fields owned
15 by interstate pipeline or storage companies with whom UGI Gas contracts for capacity. As
16 is typical for most natural gas distribution systems, UGI Gas purchases storage gas
17 throughout the year for use primarily during the winter heating season. Specifically, the
18 Company pays its gas storage bills on a monthly basis once the gas is procured in the same
19 way that its pays for gas procured from other sources. Storage inventory is a physical asset
20 that is included in the Company's rate base claim in the same manner as materials and
21 supplies inventory. UGI Gas's claim for gas storage inventory is based on a 13-month
22 average book value for the period ending September 2021 as shown on Schedule C-5. The
23 average monthly gas inventory balance for the FPFTY is \$17.813 million, as shown on

1 Schedule C-5, line 16. This amount is also used in Schedule C-1, line 5 and Schedule A-
2 1, line 5.

3
4 **5. Accumulated Deferred Income Taxes**

5 **Q. Please explain how the rate base value for Accumulated Deferred Income Taxes**
6 **(“ADIT”), including Excess Deferred Federal Income Taxes (“EDFIT”), was**
7 **calculated.**

8 A. The Company’s determination of its rate base value for ADIT, including EDFIT, is shown
9 on Schedule C-6 and is discussed in the direct testimony of Nicole M. McKinney (UGI
10 Gas Statement No. 7).

11
12 **6. Customer Deposits**

13 **Q. Please explain how the Company calculated the rate base value for customer deposits.**

14 A. Customer deposits offset the need for UGI Gas to provide capital. UGI Gas’s claimed
15 offset for customer deposits is based on the average customer deposit balance for the 13-
16 month period ending September 2021, as shown on Schedule C-7.

17
18 **Q. What is the rate base offset for customer deposits?**

19 A. The customer deposit offset is \$21.600 million, as shown on Schedule C-7, line 16,
20 Schedule C-1, line 7, and on Schedule A-1, line 7.

1 **7. Materials and Supplies Inventory**

2 **Q. What is the rate base claim for materials and supplies inventory?**

3 A. UGI Gas maintains various materials and supplies in inventory for use in its operations.
4 The Company’s claim for materials and supplies inventory is \$15.707 million, as shown
5 on Schedule C-8, line 16, Schedule C-1, line 8, and on Schedule A-1, line 8. This amount
6 is based on the average inventory for the 13-month period ending September 30, 2021, as
7 shown on Schedule C-8.

8
9 **IV. OPERATING EXPENSE ADJUSTMENTS**

10 **Q. Please describe how the Company’s claimed operating expenses were determined.**

11 A. As discussed in the direct testimony of Tracy A. Hazenstab (UGI Gas Statement No. 2),
12 the *pro forma* FPFTY expenses were based on the budgeted level of expenses as a starting
13 point. This budgeted level of expenses was then adjusted to comply with Commission
14 precedent and generally accepted ratemaking principles to reflect a normal, ongoing level
15 of operations. The supporting schedules for those adjustments are found in UGI Gas
16 Exhibit A (Fully Projected), Section D. Below, I will discuss the specific operating
17 adjustments that I am sponsoring, as contained in UGI Gas Exhibit A (Fully Projected),
18 Section D.

19
20 **1. Environmental Remediation Expenses**

21 **Q. What adjustments are shown on Schedule D-8?**

22 A. Consistent with the methodology the Company has used in past rate cases, the adjustments
23 shown on Schedule D-8 are designed to reconcile past Environmental Remediation expense
24 rate recoveries with actual incurred costs and to recover a projected annual level of

1 Environmental Remediation expense. These costs are incurred in connection with UGI
2 Gas's obligations under a Consent Order Agreement ("COA") with the Pennsylvania
3 Department of Environmental Protection ("DEP").³ The Company's remediation activities
4 under the COA are discussed in the direct testimony of Timothy J. Angstadt (UGI Gas
5 Statement No. 9).

6
7 **Q. Please describe the first Environmental Remediation expense adjustment shown on**
8 **Schedule D-8.**

9 A. The adjustment (on lines 1 – 6 of Schedule D-8) is intended to provide the Company with
10 normalized ratemaking recovery of ongoing annual cash expenditures primarily to
11 remediate former manufactured gas plant ("MGP") sites in accordance with the COA.
12 Because the amount budgeted is the amount UGI Gas recovered in the most recent previous
13 base rate case, it does not properly reflect the amount that the Company is likely to incur
14 during the FPFTY. Therefore, as in past cases, the Company has chosen to normalize the
15 expenditure based on its recent actual experience.

16 The average of the last three years of cash expenditures for remediation expenses
17 under the COA is \$5.171 million and represents the amount that the Company anticipates
18 that it will spend in the FPFTY under the COA. The difference between this annual amount
19 (\$5.171 million) and the amount budgeted by the Company (\$4.188 million), or \$0.983
20 million, is the first adjustment.

21

³ Effective October 1, 2020, DEP consolidated the Company's prior three COAs (which aligned with the Company's former rate districts) into one COA that covers the entire UGI Gas service territory.

1 **Q. Is the Company making an Environmental Remediation expense adjustment related**
2 **to under-recovered MGP expenses for Fiscal Year 2019 and prior periods?**

3 A. No. Lines 7 – 12 of Schedule D-8 show that the Company’s annual amortization of the
4 balance of under-recovered MGP expenses for periods prior to September 30, 2019,
5 approved in the 2020 Base Rate Case, matches the amount budgeted for that time. In the
6 2020 Base Rate Case, the Company was authorized to amortize \$8.103 million of under-
7 recovered MGP expenses over a 5-year period, or \$1.621 million per year for under-
8 recovered MGP expenses for periods prior to September 30, 2018. Also in the 2020 Base
9 Rate Case, the Company was authorized to amortize an additional \$1.219 million over a 5-
10 year period, or \$0.24 million per year for under-recovered MGP expenses for Fiscal Year
11 2019. The Company budgeted this same annual amount (\$1.865 million) for expense
12 purposes. As such, no adjustment is needed for this item.

13
14 **Q. Please describe the final Environmental Remediation expense adjustment shown on**
15 **Schedule D-8, lines 13 – 17 for Fiscal Years 2020 and 2021.**

16 A. The adjustment (on lines 13 – 17 of Schedule D-8) shows the under-recovery of the
17 Company’s MGP remediation expense incurred since the last rate case by comparing the
18 actual Fiscal Year 2020 and 2021 remediation costs with the normalized level authorized
19 in the 2019 and 2020 Base Rate Cases, respectively. The unrecovered expenditures of
20 \$2.327 million (line 15) will be recovered over a one-year amortization period through
21 Fiscal Year 2023.

1 **Q. What ratemaking amount is used to determine the future years' costs subject to**
2 **reconciliation in the next rate case?**

3 A. That amount is the annual amount derived from the first adjustment on Schedule D-8, or
4 \$5.171 million, which is the normalized amount indicative of UGI Gas's experience over
5 the past three years. Any future years' variance of actual annual expenditures from that
6 figure will be credited to customers (in the case of an overcollection) or recovered from
7 customers (in the case of an undercollection) in the Company's next base rate case.

8

9 **2. Uncollectible Accounts Expense**

10 **Q. Please explain the two adjustments being shown on Schedule D-11 for Uncollectible**
11 **Accounts Expense.**

12 A. The first adjustment, \$2.026 million, adjusts budgeted uncollectible accounts expense to
13 reflect a three-year average rate of uncollectible accounts expense for Fiscal Years 2019,
14 2020, and 2021. The baseline amounts for Fiscal Years 2020 and 2021 include \$0.607
15 million and \$0.896 million, respectively, of amounts recorded as a regulatory asset (as
16 further discussed under the second adjustment in Schedule D-11 below). This ratio is used
17 to adjust the amount of uncollectible expense in the budget to conform to the three-year
18 average uncollectible rate. The resulting 1.647 percent ratio shown on line 4, column 5, is
19 applied on line 7 to the *pro forma* revenues at present rates to calculate the *pro forma*
20 uncollectible accounts expense of \$17.426 million shown on line 7, column 4. This results
21 in an increase in the level of uncollectible accounts expense for the FPFTY from the
22 budgeted amount of \$15.400 million shown on line 5. The 1.647 uncollectible ratio is then
23 applied to determine the level of uncollectible accounts expense at *pro forma* proposed

1 rates through the gross revenue conversion factor, as shown in column 3, line 2 of Schedule
2 D-35.

3 The second adjustment in Schedule D-11 represents the amortization of the
4 regulatory asset balance of \$1.503 million for COVID-19 Pandemic Costs over a 10-year
5 amortization period (in accordance with Ordering Paragraph 29 in the Commission’s Order
6 entered October 8, 2020 at Docket No. R-2019-3015162). According to Ordering
7 Paragraph 30, COVID-19 Pandemic Costs include “annual uncollectible accounts expense
8 in excess of \$12.81 million beginning with the fiscal year period ending September 30,
9 2020 and continuing for annual periods thereafter until the effective date of the Company’s
10 next base rate filing” The same Ordering Paragraph indicates that such COVID-19
11 Pandemic Costs shall be eligible for recovery for ratemaking purposes.

12 For the Fiscal Years ended September 30, 2020 and September 30, 2021, UGI Gas
13 had uncollectible costs of \$13.417 million and \$13.706 million, respectively. For these
14 two years, the combined excess of uncollectible expense incurred over the established
15 threshold of \$12.810 million per year was \$1.503 million, which was established as a
16 regulatory asset and is being amortized over a 10-year period effective at the beginning of
17 the FPFTY. This results in an increase in the level of uncollectible accounts expense for
18 the FPFTY of \$150,000, as shown on line 11. The total increase (above the budgeted
19 amount) in the uncollectible accounts expense for the FPFTY is \$2.176 million, as shown
20 on line 12.

1 **3. Emergency Relief Program (“ERP”) Adjustment**

2 **Q. Please describe the adjustment shown on Schedule D-12.**

3 A. The adjustment shown on Schedule D-12 reflects recovery of costs associated with the
4 temporary Emergency Relief Program (“ERP”). The Company established the ERP in
5 response to the COVID-19 Pandemic to aid customers who were unable to fully pay their
6 utility bills. The costs of the program include implementation expenses and direct bill
7 credits. The ERP was approved within the settlement agreement to the Company’s 2020
8 Gas Base Rate Case at Docket No. R-2019-3015162. The Company’s costs of \$0.922
9 million associated with the program were accumulated within a regulatory asset. The
10 Company is proposing to amortize these costs over a 10-year period, in accordance with
11 Ordering Paragraph 29 in the Commission’s Order approving the settlement in the
12 Company’s 2020 Gas Base Rate Case.

13
14 **4. Benefits Expense Adjustment**

15 **Q. Please describe the adjustment shown on Schedule D-14.**

16 A. The adjustment shown on Schedule D-14 reflects an adjustment from budgeted pension
17 expense to reflect cash to be contributed to the plan in the FPFTY. The Company’s budget
18 reflects pension expense based on GAAP requirements to reflect service and non-service
19 costs based on assumptions. However, consistent with prior ratemaking practices, the
20 Company claims pension costs within its rates on a cash basis. The adjustment is calculated
21 as the total cash contributions (per the Company’s most recent actuarial report), reduced to
22 reflect only the portion attributable to UGI Gas, and then further reduced to reflect the
23 portion of pension that is capitalizable. This cash pension expense of \$5.501 million (line
24 5) is compared to the budgeted pension income of (\$2.887) million (line 1), also calculated

1 for UGI Gas only and net of the capitalizable portion, resulting in an adjustment of \$8.388
2 million (line 6).

3
4 **5. Injuries and Damages Adjustment**

5 **Q. Please discuss the adjustment for Injuries and Damages shown on Schedule D-15.**

6 A. The amount of expense incurred for injuries and damages in any one year can vary based
7 on the quantity and severity of the claims. The Company bases its claim for injuries and
8 damages on a normalized amount. This is accomplished by making an adjustment on this
9 schedule for the difference between the normalized amount and the budgeted amount. The
10 three-year average of injuries and damages expenses of \$1.353 million is calculated on
11 lines 1 – 4 of Schedule D-15. The budgeted amount for injuries and damages, \$2.023
12 million, is shown on line 5. The difference between these amounts, \$0.670 million, was
13 used to reduce budgeted injuries and damages expense by \$0.670 million, as shown on line
14 6, to reflect the normalized expense.

15
16 **V. CAPITAL TREATMENT OF CERTAIN INFORMATION TECHNOLOGY**
17 **COSTS**

18 **Q. What is the Company's policy for capital treatment of certain information technology**
19 **("IT") costs?**

20 A. Since 2016, UGI (including UGI Gas and UGI Electric) has received authorization to
21 capitalize certain IT costs associated with software implementation projects within various
22 base rate proceedings. These IT costs consist of internal labor, external consulting
23 expenses, and other expenses related to the preparation of the vendor and system integrator
24 requests for proposals. IT costs also include current-state assessments, reengineering

1 business processes to adapt to the new system, data conversion, cleansing and migration
2 (including field verification and digitization of asset attributes required for accurate data
3 and facility capture), and pre-implementation training costs. Additionally, the Company
4 capitalizes the above-mentioned cost items for cloud computing software implementation
5 projects. Further, beginning in 2019, the Company began capitalizing Hypercare costs
6 associated with large software implementation projects. Hypercare is a term for post-
7 implementation support following the deployment of an IT project to ensure that the newly
8 implemented system operates as planned.

9
10 **Q. Is the Company planning to continue with similar methods of IT costs capitalization**
11 **in this proceeding?**

12 A. Yes. The Company continues to capitalize such costs in line with the authorizations
13 received previously, and all such costs which are claimed in the current case are included
14 within the Company's budgeted capital as laid out in Exhibit A (Future) and Exhibit A
15 (Fully Projected).

16
17 **VI. COVID-19 PANDEMIC COSTS**

18 **Q. Has the Company incurred COVID-19 Pandemic Costs, as defined in Ordering**
19 **Paragraphs 29 and 30 of the Commission's Order pertaining to UGI Gas's 2020 Gas**
20 **Base Rate Case at Docket No. R-2019-3015162?**

21 A. Yes. However, the Company reviewed qualifying COVID-19 Pandemic Costs and
22 determined that no such costs should be claimed in this rate case, except for the annual
23 uncollectible accounts expense in excess of \$12.81 million, which is included on Schedule

1 D-11, and the costs of the Emergency Relief Program, which are included on Schedule D-
2 12.

3
4 **VII. COSTS FOR FEDERAL MANDATES REGARDING COVID-19 VACCINATION**
5 **& TESTING**

6 **Q. Is the Company seeking recovery of certain new and incremental costs directly**
7 **attributable to businesses in complying with recently issued Federal requirements for**
8 **COVID-19 vaccinations and testing?**

9 A. The Company is prepared to comply with President Biden’s COVID-19 Action Plan and
10 the Department of Labor’s OSHA Emergency Temporary Standard (“ETS”) requirements
11 relating to vaccination and testing mandates (collectively referred to herein as “Federal
12 Mandates”). Under the Federal Mandates, the Company would be required to track and
13 verify the vaccination status of its employees and contractors, and, for those who are
14 unvaccinated, collect proof of weekly testing. The associated costs to comply with the
15 Federal Mandates include, but are not limited to: (1) costs for a subscription to software to
16 track vaccination status; (2) costs for performing required COVID-19 testing; (3) costs for
17 legal assistance in interpreting and applying the Federal Mandates; and (4) costs for
18 drafting the Company’s corresponding policies and communicating such to its employees
19 and contractors.

20
21 **Q. Has the Company included these costs within its claim?**

22 A. Yes. Because of the timing of the preparation of the Company’s budget and ongoing legal
23 challenges to the Federal Mandates, costs of compliance with the Federal Mandates were
24 not included in the budget for the FTY or FPFTY. Therefore, the Company has included

1 these costs as an adjustment to its Operating Expenses within Schedule D-13 of UGI Gas
2 Exhibit A (Fully Projected). The ongoing annual costs of \$1.692 million, which consist of
3 a subscription to software to track vaccination status and the cost to perform required
4 COVID-19 testing, are added to the budget. The one-time costs of \$0.191 million are
5 aggregated and proposed to be recovered over a one-year amortization period, also within
6 Schedule D-13. The total budget adjustment for these costs is \$1.883 million, as shown at
7 Schedule D-13, line 6. While there remains uncertainty concerning the Federal Mandates'
8 vaccination and testing requirements due to a recent decision by the U.S. Supreme Court,⁴
9 UGI Gas believes it is appropriate to include a cost associated with vaccination and testing
10 mandates in its revenue requirement to ensure future cost recovery in the event such
11 mandates or similar mandates become law. Depending on the ultimate outcome of the
12 Federal Mandates, UGI Gas can reassess to determine whether this figure should be further
13 adjusted or if a regulatory asset should be created.

14
15 **Q. Does the Company anticipate any additional costs associated with the Federal**
16 **Mandates?**

17 A. Yes. The Company believes that its contractors who perform much of its maintenance and
18 construction work would be required to comply with the Federal Mandates due to their
19 association with the Company. The Company expects that the contractors would also pass
20 along their costs of complying with the Federal Mandates to the Company in the form of
21 increased rates for performing construction and maintenance work on the Company's

⁴ See *Nat'l Fed'n of Indep. Bus. v. Dep't of Labor*, 2022 U.S. LEXIS 496 (U.S. 2022).

1 utility system. However, because the Company is unable to specifically quantify these
2 costs, they have not been included in the claim.

3

4 **Q. Does this conclude your direct testimony?**

5 A. Yes, it does.

UGI GAS

EXHIBIT VKR-1

Vivian K. Ressler

Sr. Manager – Plant and Regulatory Accounting

Work Experience

December 2021 - Current	Sr. Manager – Plant & Regulatory Accounting UGI Utilities, Inc. – Denver, PA
Feb. 2020 – December 2021	Sr. Manager – SOX, Plant Accounting & Accounts Payable UGI Utilities, Inc. – Denver, PA
June 2018 – Feb. 2020	Manager – Technical Accounting & Controls UGI Utilities, Inc. – Denver, PA
May 2014 – May 2018	Departmental Vice President – Corporate Accounting The Bon-Ton Stores, Inc. – York, PA
May 2012 – May 2014	Supervisor – Attest Services Trout, Ebersole & Groff, LLP – Lancaster, PA
Nov. 2007 – May 2012	Sr. Manager – Corporate Accounting & Tax BI-LO, LLC – Greenville, SC
Sept. 1998 – Oct. 2007	Staff Accountant through Sr. Manager – Audit Services Deloitte & Touche, LLP – Greenville, SC

Previous Testimony before the Pennsylvania Public Utility Commission

UGI Gas Base Rate Case	Docket No. R-2019-3015162
UGI Electric Base Rate Case	Docket No. R-2021-3023618

Education & Professional Certification

B. S. in Accounting – Bob Jones University, Greenville, SC

Certified Public Accountant – Commonwealth of Pennsylvania

UGI GAS STATEMENT NO. 4

JOHN F. WIEDMAYER

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Docket No. R-2021-3030218

UGI Utilities, Inc. – Gas Division

Statement No. 4

**Direct Testimony of
John F. Wiedmayer, C.D.P.**

Topics Addressed: Depreciation and Net Salvage

Date: January 28, 2022

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1 DIRECT TESTIMONY OF

2 JOHN F. WIEDMAYER

3 DOCKET NO. R-2021-3030218

4 I. INTRODUCTION

5 **Q. Please state your name and address.**

6 A. My name is John F. Wiedmayer. My business address is 1010 Adams Avenue,
7 Audubon, Pennsylvania 19403.

8
9 **Q. Are you associated with any firm and in what capacity?**

10 A. Yes. I am associated with the firm of Gannett Fleming Valuation and Rate
11 Consultants, LLC (“Gannett Fleming”) as Project Manager, Depreciation and
12 Valuation Studies.

13
14 **Q. How long have you been associated with Gannett Fleming?**

15 A. I have been associated with the firm since I graduated from college in June
16 1986.

17
18 **Q. What is your educational background?**

19 A. I have an AB degree in Engineering from Lafayette College and a Master of
20 Business Administration from the Pennsylvania State University.

21
22 **Q. Do you belong to any professional societies?**

23 A. Yes. I am a member of the National and Pennsylvania Societies of Professional
24 Engineers and the Society of Depreciation Professionals (“SDP”). In 2005, I

1 served as President of the SDP and was a member of the SDP's Executive
2 Board for the years 2003 through 2007.

3
4 **Q. Do you hold any special certification as a depreciation expert?**

5 A. Yes. The SDP has established national standards for depreciation
6 professionals. The SDP administers an examination to become certified in this
7 field. I passed the certification exam in September 1997 and have fulfilled the
8 requirements necessary to remain a Certified Depreciation Professional.

9
10 **Q. Please outline your experience in the field of depreciation.**

11 A. I have over 35 years of depreciation experience, which includes expert
12 testimony in numerous cases before 14 regulatory commissions, including the
13 Pennsylvania Public Utility Commission ("PUC" or "Commission").

14 In June 1986, I was employed by Gannett Fleming as a Depreciation
15 Engineer. I held that position from June 1986 through December 1995. In
16 January 1996, I was assigned to the position of Supervisor of Depreciation
17 Studies. In August 2004, I was promoted to my present position as Project
18 Manager of Depreciation Studies. I am responsible for conducting depreciation
19 and valuation studies, including the preparation of testimony, exhibits, and
20 responses to data requests for submission to the appropriate regulatory bodies.
21 My additional duties include determining final life and salvage estimates,
22 conducting field reviews, presenting recommended depreciation rates to
23 management for its consideration, and supporting such rates before regulatory
24 bodies.

1 During the course of my employment with Gannett Fleming, I have
2 assisted in the preparation of numerous depreciation studies for utility
3 companies across various industries. I assisted in the preparation of
4 depreciation studies for the following telephone companies: Alberta
5 Government Telephone, Commonwealth Telephone Company, Telus, United
6 Telephone Company of New Jersey, and United Telephone of Pennsylvania. I
7 assisted in the preparation of depreciation studies for the following companies
8 in the railroad industry: CSX Transportation, Union Pacific Railroad, Burlington
9 Northern Railroad, Burlington Northern Santa Fe Railway, Amtrak, Kansas City
10 Southern Railroad, Norfolk & Western, Southern Railway, and Norfolk Southern
11 Corporation.

12 I assisted in the preparation of depreciation studies for the following
13 organizations in the electric industry: AmerenUE, Arizona Public Service
14 Company, UGI Utilities, Inc. - Electric Division (“UGI Electric”), Penelec,
15 Metropolitan Edison, the City of Red Deer, Nova Scotia Power, Newfoundland
16 Power, Owen Electric Cooperative, Bangor Hydro Electric Company, Maine
17 Public Service Company, Michigan Electric Transmission Company, PECO,
18 Jackson Electric Cooperative Corporation, Houston Lighting and Power, TXU,
19 Maritime Electric, Nolin Rural Electric Cooperative, AmerenCIPS,
20 AmerenCILCO, AmerenIP, and the City of Calgary - Electric System.

21 I assisted in the preparation of depreciation studies for the following gas
22 companies: BGE, PECO, UGI Utilities, Inc. – Gas Division, North Penn Gas,
23 PFG Gas, UGI Central Penn Gas, Inc., Equitable Gas, Centra Gas Alberta,

1 Questar Gas, Orange and Rockland, Con Edison, Dominion East Ohio,
2 AmerenUE, AmerenCILCO, AmerenCIPS, and AmerenIP.

3 In each of the above studies, I assembled and analyzed historical and
4 simulated data, performed field reviews, developed preliminary estimates of
5 service lives and net salvage, calculated annual depreciation, and prepared
6 reports for submission to state public utility commissions or federal regulatory
7 agencies.

8
9 **Q. Have you previously testified on the subject of utility plant depreciation?**

10 A. Yes. I have submitted testimony to the Kentucky Public Service Commission,
11 the Newfoundland and Labrador Board of Commissioners of Public Utilities, the
12 Nova Scotia Utility and Review Board, the Federal Energy Regulatory
13 Commission, the Utah Public Service Commission, the Arizona Corporation
14 Commission, the Missouri Public Service Commission, the Illinois Commerce
15 Commission, the Maine Public Utilities Commission, the Maryland Public
16 Service Commission, the New Jersey Board of Public Utilities, the New York
17 Public Service Commission, the Connecticut Public Utilities Regulatory
18 Authority, and the PUC.

19
20 **Q. Have you received any additional education relating to utility plant
21 depreciation?**

22 A. Yes. I have completed the following courses conducted by Depreciation
23 Programs, Inc.: "Techniques of Life Analysis," "Techniques of Salvage and
24 Depreciation Analysis," "Forecasting Life and Salvage," "Modeling and Life

1 Analysis Using Simulation,” and “Managing a Depreciation Study.” In 2000, I
2 became an instructor at the SDP’s annual conference lecturing on “Salvage
3 Concepts,” “Depreciation Models,” “Analyzing the Life of Real-World Utility
4 Property – Actuarial Analysis,” “Theoretical Reserve Imbalances and True-Up,”
5 and “Data Requirements for a Depreciation Study.”

6
7 **II. PURPOSE OF TESTIMONY**

8 **Q. What is the purpose of your testimony?**

9 A. My testimony is in support of the depreciation studies conducted under my
10 direction and supervision for the Pennsylvania gas plant of UGI Utilities, Inc. –
11 Gas Division (“UGI Gas” or the “Company”). I was retained by the Company as
12 a depreciation consultant. UGI Gas retained me to determine the book
13 depreciation reserve as of September 30, 2023, to determine the annual
14 depreciation expense to be included as an element of the cost of service, and
15 to testify in support of those two determinations in this proceeding.

16 I am also a sponsoring witness for UGI Gas’s depreciated original cost
17 of gas plant in service included in rate base. My testimony will address my
18 depreciation study, the appropriate depreciation reserve for ratemaking
19 purposes, the original cost measure of value, and the appropriate annual
20 depreciation expense to be included in the ratemaking cost of service as of
21 September 30, 2023.

1 **Q. Were you responsible for the preparation of any of the Company's**
2 **responses to the Commission's filing regulations that were filed in**
3 **support of the Company's general rate filing?**

4 A. Yes. I am the responsible witness for the following items in UGI Gas Book I:

5	<u>Item No.</u>	<u>Subject</u>
6		
7	I-A-3	Description of Depreciation Methods and Factors
8		Considered in Arriving at Estimates of Service Life and
9		Dispersion by Account
10		
11	I-A-4	Survivor Curves and Surviving Original Cost Including
12		Related Annual and Accrued Depreciation
13		
14	I-A-5	Comparison of Calculated Reserve vs. Book Reserve
15		
16	I-A-6	Survivor Curves and Annual Accrual Rates
17		
18	I-A-7	Cumulative Depreciated Original Cost by Vintage Year
19		
20	I-A-8	Trended Original Cost Methodology
21		
22	I-A-9	Spot Trended Original Cost
23		
24	I-A-10	Undepreciated Original Cost
25		
26	I-A-11	Cumulative Trended Depreciated Original Cost
27		
28	I-A-17	Net Salvage
29		

30 **Q. Have you previously prepared comparable studies for UGI Gas?**

31 A. Yes. I provided testimony on depreciation matters for the Company in the prior
32 two UGI Penn Natural Gas ("PNG") base rate cases at Docket No. R-2016-
33 2580030 and Docket No. R-2008-2079660, the prior two UGI Central Penn Gas
34 ("CPG") base rate cases at Docket No. R-2010-2214415 and Docket No. R-
35 2008-2079675 and the three most recent base rate case for UGI Utilities, Inc. –
36 Gas Division at Docket No. R-2015-2518438, Docket No. R-2018-3006814 and

1 Docket No. R-2019-3015162. Prior to those rate filings, I prepared exhibits for
2 the depreciation study in UGI Gas’s base rate case filed in 1995 at Docket No.
3 R-00953297.

4
5 **III. OUTLINE OF EXHIBITS C (FULLY PROJECTED), C (FUTURE) AND C**
6 **(HISTORIC)**

7 **Q. Will you be sponsoring any exhibits with your direct testimony?**

8 A. Yes, I am attaching and sponsoring the following exhibits: UGI Gas Exhibit C
9 (Fully Projected), UGI Gas Exhibit C (Future), and UGI Gas Exhibit C (Historic).
10 UGI Gas Exhibit C (Fully Projected) presents the summarized depreciation
11 calculations and supporting tables related to the fully projected future test year
12 (“FPFTY”) ending September 30, 2023 for UGI Gas. UGI Gas Exhibit C (Future)
13 presents similar summarized depreciation calculations and supporting charts
14 and tables related to the depreciation study for the future test year (“FTY”)
15 ending September 30, 2022. UGI Gas Exhibit C (Historic) presents the
16 summarized depreciation calculations and supporting tables related to the
17 historic test year (“HTY”) ended September 30, 2021. Each of the three exhibits
18 is organized in a similar manner and contains information and schedules
19 supporting the amounts applicable to each test year period. UGI Gas Exhibit C
20 (Future) contains additional information including the supporting charts and life
21 tables related to the service life estimates.

1 **Q. Does UGI Gas Exhibit C (Fully Projected) accurately portray the results of**
2 **your depreciation study as of September 30, 2023?**

3 A. Yes.

4
5 **Q. In preparing the depreciation study, did you follow generally accepted**
6 **practices in the field of depreciation?**

7 A. Yes.

8
9 **Q. Please describe the contents of the depreciation study reports, UGI Gas**
10 **Exhibit C (Future), and UGI Gas Exhibit C (Fully Projected).**

11 A. The depreciation study report in UGI Gas Exhibit C (Future) consists of eight
12 parts including charts and tables filed in the Company's most recent service life
13 study report prepared by me and submitted in 2019. Part I, Introduction,
14 includes statements related to the scope of and basis for the depreciation study.
15 Part II, Estimation of Survivor Curves, presents detailed discussions of: (1)
16 survivor curves; and (2) methods of life analysis, including an example of the
17 retirement rate method. Part III, Service Life Considerations, presents the
18 relevant factors considered for estimating service lives. Part IV, Calculation of
19 Annual and Accrued Depreciation, sets forth a description of: (1) the group
20 procedures used for calculating annual and accrued depreciation; and (2) an
21 explanation of the manner in which net salvage was incorporated in the
22 calculations. Part V, Results of Study, includes a description of the results and
23 summaries of the detailed depreciation calculations as of September 30, 2022.
24 Part VI, Service Life Statistics, presents the results of the retirement rate

1 analyses prepared as the historical bases for the service life estimates. Part
2 VII, Detailed Depreciation Calculations, sets forth the detailed depreciation
3 calculations related to surviving original cost as of September 30, 2022. The
4 detailed depreciation calculations present the annual and accrued depreciation
5 amounts by account and vintage year. The remaining life annual accrual rate
6 is also set forth in the tables of Part VII. Part VIII, Experienced and Estimated
7 Net Salvage, contains the net salvage amortization of experienced and
8 estimated net salvage for the years 2018 through 2022.

9 UGI Gas Exhibit C (Fully Projected) includes: a description of the scope,
10 basis, and results of the studies; summaries of the depreciation calculations;
11 and the detailed depreciation calculations as of September 30, 2023. The
12 descriptions and explanations presented in UGI Gas Exhibit C (Future) are also
13 applicable to the depreciation calculations presented in UGI Gas Exhibit C (Fully
14 Projected). The graphs and tables related to service life presented in UGI Gas
15 Exhibit C (Future) also support the service life estimates used in UGI Gas
16 Exhibit C (Fully Projected) inasmuch as the estimates are the same for all three
17 test years, i.e., HTY, FTY, and FPFTY. The service life estimates set forth in
18 UGI Gas Exhibit C (Historic) are the same estimates as those approved in the
19 Company's Annual Depreciation Report ("ADR") submitted to the PUC in March
20 2021. The pro forma depreciation expense for UGI Gas at the end of the HTY,
21 September 30, 2021, is the sum of the three former rate districts, UGI South,
22 UGI North, and UGI Central.

23 The results of the study are set forth in Part II in UGI Gas Exhibit C (Fully
24 Projected). Table 1, pages II-3 through II-5 of UGI Gas Exhibit C (Fully

1 Projected), presents the estimated survivor curve, the original cost and
2 depreciation reserve as of September 30, 2023, and the calculated annual
3 depreciation rate and amount for each account or subaccount of Gas Plant in
4 Service. Table 2, pages II-6 and II-7 of UGI Gas Exhibit C (Fully Projected),
5 presents the bring-forward to September 30, 2023, of the depreciation reserve
6 as of September 30, 2021. Table 3, pages II-8 through II-10 of UGI Gas Exhibit
7 C (Fully Projected), presents the calculation of the book depreciation amounts
8 for the FPFTY. Table 4, pages II-11 and II-12 of UGI Gas Exhibit C (Fully
9 Projected), presents the experienced and estimated net salvage for fiscal years
10 2019 through 2023. The amortization of net salvage is based on experienced
11 and estimated net salvage during the period October 1, 2018 through
12 September 30, 2023. The summary tables and detailed depreciation
13 calculations set forth in UGI Gas Exhibit C (Fully Projected) as of September
14 30, 2023, are organized and presented in the same manner as those presented
15 in UGI Gas Exhibit C (Future) as of September 30, 2022.

16
17 **Q. Please outline the contents of Exhibit C (Historic).**

18 A. UGI Gas Exhibit C (Historic) is organized similarly to UGI Gas Exhibit C (Fully
19 Projected). UGI Gas Exhibit C (Historic) includes: a description of the scope,
20 basis, and results of the studies; summaries of the depreciation calculations;
21 and the detailed depreciation calculations as of September 30, 2021. The
22 service life estimates used in the HTY period were based on the survivor curve
23 estimates set forth in the ADR submitted to the PUC in March 2021. The same
24 survivor curve estimates were used in each of the three respective test year

1 periods and were based on a service life study submitted in 2019 using plant
2 accounting data through fiscal year-end 2017. The summary tables and
3 detailed depreciation calculations as of September 30, 2021, are organized and
4 presented in the same manner as those as of September 30, 2023, with two
5 exceptions. Tables 2 and 3 presented in UGI Gas Exhibit C (Fully Projected)
6 are not necessary and, therefore, are not presented in UGI Gas Exhibit C
7 (Historic).

9 **IV. THE DEPRECIATION STUDY - OVERVIEW**

10 **Q. Please describe what you mean by the term "depreciation".**

11 A. My use of the term "depreciation" is in accord with the definition set forth in the
12 Uniform System of Accounts prescribed for Class A and Class B Natural Gas
13 Companies. "Depreciation" refers to the loss in service value not restored by
14 current maintenance, incurred in connection with the consumption or
15 prospective retirement of gas plant in the course of service from causes which
16 are known to be in current operation, against which the company is not
17 protected by insurance. Among the causes to be given consideration are wear
18 and tear, decay, action of the elements, inadequacy, obsolescence, changes
19 in the art, changes in demand, requirements of public authorities, and the
20 exhaustion of natural resources.

21 In the study that I performed, which is the basis for my testimony, I used
22 the straight line remaining life method of depreciation, with the average service
23 life and equal life group procedures. The annual depreciation is based on a
24 system of depreciation accounting that aims to distribute the unrecovered cost

1 of fixed capital assets over the estimated remaining useful life of the unit, or
2 group of assets, in a systematic and rational manner. For clarity of
3 presentation, the detailed depreciation calculations are presented by account,
4 vintage year and former rate district, the sum of which totals to the consolidated
5 PA-jurisdictional UGI Gas company which excludes a small portion of the UGI
6 gas system located in Maryland. The depreciation summary tables present the
7 results on a total PA-jurisdictional UGI Gas basis.

8
9 **Q. Is the Company's claim for annual depreciation in the current proceeding**
10 **based on the same methods of depreciation that were used in the**
11 **Company's March 2021 ADR?**

12 A. Yes, it is. For most plant accounts, the current claim for annual depreciation is
13 based on the straight line remaining life method of depreciation, which has
14 been used by the Company for over thirty years. The depreciation methods
15 and procedures are described further in Part II of UGI Gas Exhibit C (Future).

16 For General Plant Accounts 391, 393, 394, 395, 397, and 398, I used
17 the straight line remaining life method of amortization. The annual amortization
18 is based on amortization accounting, which distributes the unrecovered cost of
19 fixed capital assets over the remaining amortization period selected for each
20 account.

1 **V. ORIGINAL COST MEASURE OF VALUE**

2 **Q. What is the original cost of gas plant to be included in rate base in this**
3 **proceeding?**

4 A. As of September 30, 2023, the original cost of gas plant in service is
5 \$5,042,025,320 as shown in column 4 of Table 1 on pages II-3 through II-5 of
6 UGI Gas Exhibit C (Fully Projected). This amount includes \$4,751,865,847 of
7 Gas Plant and \$290,159,473 of Other Utility Plant allocated to UGI Gas. Other
8 Utility Plant is primarily comprised of plant assets included in Common Plant
9 and Information Services ("IS"). The assets included in Common Plant and IS
10 are assets that are shared and jointly used between UGI Gas and UGI Electric.
11 The costs related to Common Plant and IS are allocated to UGI Gas at 88.97
12 percent and 91.68 percent, respectively. Also, the full cost of the buildings at
13 the Empire Service Center ("Empire") in Wilkes Barre, PA were included in Gas
14 Division. However, personnel of UGI Electric share portions of the buildings at
15 that location and therefore a portion of the cost related to Empire was deducted
16 from UGI Gas and allocated to UGI Electric.

17
18 **VI. THE ACCRUED DEPRECIATION CLAIM**

19 **Q. Have you determined UGI Gas's accrued depreciation for ratemaking**
20 **purposes as of September 30, 2023?**

21 A. Yes. I have determined the allocated book depreciation reserve as of
22 September 30, 2023, to be \$1,318,560,331.

1 **Q. Is the Company's claim for accrued depreciation in the current proceeding**
2 **made on the same basis as has been used for over thirty years?**

3 A. Yes. The current claim for accrued depreciation is the book reserve brought
4 forward from the book reserve set forth in the Company's financial statements
5 and approved annually in connection with the Company's submission of its
6 annual depreciation report each March to the Commission.

7
8 **Q. How did you determine UGI Gas's allocated book depreciation reserve as**
9 **of September 30, 2022?**

10 A. The book depreciation reserve attributable to UGI Gas as of September 30,
11 2022, is set forth in column 5 of Table 1 of UGI Gas Exhibit C (Future). Table 2
12 of UGI Gas Exhibit C (Future) is an annual bring-forward of the book
13 depreciation reserve as of September 30, 2021, using estimated accruals,
14 retirements, salvage, and cost of removal for the twelve months from October
15 2021 through September 2022. The table sets forth, by plant account, the
16 beginning book reserve balance as of September 30, 2021, the estimated
17 reserve activity, and the ending reserve balance as of September 30, 2022. The
18 estimated reserve activity consists of depreciation accruals (column 3),
19 amortization of net salvage (column 4), projected retirements (column 5),
20 projected salvage (column 6), and projected cost of removal (column 7). Table
21 3 of UGI Gas Exhibit C (Future) sets forth the calculation of the estimated
22 depreciation accruals by plant account, which is carried forward to column 3 of
23 Table 2. The book reserve as of September 30, 2021, by plant account, shown

1 in column 2 of Table 2, was obtained from UGI Gas's books and records and
2 are the same amounts set forth in Table 1 of Exhibit C (Historic).

3 **Q. Please explain the manner in which you projected the depreciation**
4 **accruals for the twelve months ended September 30, 2022.**

5 A. The depreciation accruals for the twelve months ended September 30, 2022, by
6 plant account, were estimated by applying the annual depreciation accrual rates
7 calculated as of September 30, 2021, to the projected average 2022 plant
8 balance. The average balance for the twelve months ended September 30,
9 2022, is computed in columns 2 through 7 of Table 3 and is based on the
10 projected additions, retirements, and transfers in columns 3 through 5.

11
12 **Q. With reference to Table 2, column 4, please explain what you mean by "the**
13 **amortization of net salvage" and explain the manner in which you**
14 **projected it.**

15 A. The amortization of net salvage is the annual provision for recovering
16 experienced negative net salvage. This process for recognizing net salvage in
17 the cost of service is in accordance with Pennsylvania ratemaking practice. The
18 amortization of net salvage is based on experienced net salvage during the
19 preceding five-year period, October 1, 2016 through September 30, 2021.

1 **Q. Please explain the manner in which you projected the retirements,**
2 **salvage, and removal costs that are shown in columns 5, 6, and 7 of Table**
3 **2.**

4 A. Retirements were projected by plant account by applying the average retirement
5 ratio, expressed as a percent of additions, for the five years 2017 through 2021,
6 to FTY and FPFTY additions for most plant accounts. For certain General Plant
7 accounts subject to amortization accounting, retirements are recorded when a
8 vintage is fully amortized. All units are retired per books when the age of the
9 vintage reaches the amortization period. Therefore, all vintages that reached
10 or exceeded the amortization period were retired during the FTY for certain
11 General Plant accounts subject to amortization accounting. Salvage and
12 removal costs were projected by plant account by applying the average salvage
13 and cost of removal ratios, expressed as a percent of retirement amounts, for
14 the five years 2017 through 2021, to the projected retirement amounts.

15
16 **Q. Was the book reserve as of September 30, 2023, estimated using the same**
17 **methodology?**

18 A. Yes, it was essentially the same methodology with one minor exception. The
19 book depreciation accruals calculated for fiscal year 2023 were based on
20 applying the depreciation rate to average monthly plant balances for purposes
21 of calculating the book reserve as of September 30, 2023.

1 **VII. THE ANNUAL DEPRECIATION EXPENSE CLAIM**

2 **Q. Have you determined UGI Gas’s annual depreciation expense to be**
3 **included as an element in the cost of service for purposes of this**
4 **proceeding?**

5 A. Yes, I have. The annual depreciation expense is \$133,907,352 and consists of
6 \$127,823,602 of annual accruals to recover original cost and \$6,083,750 of net
7 salvage amortization. These amounts are set forth in column 8 of Table 1 in
8 UGI Gas Exhibit C (Fully Projected).

9
10 **Q. How did you determine the annual accruals of \$133,907,352?**

11 A. The determination of annual depreciation accruals consists of two phases. In
12 the first phase, survivor curves are estimated for each plant account or
13 subaccount. In the second phase, the composite remaining lives and annual
14 depreciation accruals are calculated based on the service life estimates
15 determined in the first phase.

16 The determination of annual amortization amounts consists of the
17 selection of amortization periods and the calculation of amortization amounts
18 based on the remaining amortization period and the unrecovered cost for each
19 vintage.

20
21 **Q. Please describe the manner in which you estimated the service life**
22 **characteristics for each depreciable group in the first phase of the study.**

23 A. The service life study consisted of compiling historical data from records
24 related to UGI Gas’s gas plant; analyzing these data to obtain historical trends

1 of survivor characteristics; obtaining supplementary information from
2 engineering management and operating personnel concerning UGI Gas's
3 practices and plans as they relate to plant operations; and interpreting the
4 above data to form judgments of average service life characteristics.

5
6 **Q. What historical data did you analyze for the purpose of estimating the**
7 **service life characteristics of UGI Gas's gas plant?**

8 A. The data consisted of the entries made by UGI Gas to record gas plant
9 transactions during the period 1951 through 2017. The transactions included
10 additions, retirements, transfers, acquisitions, and the related balances. I
11 classified the data by depreciable group, type of transaction, the year in which
12 the transaction took place, and the year in which the plant was installed.

13
14 **Q. What method did you use to analyze these service life data?**

15 A. I used the retirement rate method of life analysis. The retirement rate method
16 is the most appropriate method when aged retirement data are available
17 because it develops the average rates of retirement actually experienced
18 during the period of study. Other methods of life analysis infer the rates of
19 retirement based on a selected type survivor curve and were not used.

20
21 **Q. Please describe the results of your use of the retirement rate method.**

22 A. Each retirement rate analysis resulted in a life table, which, when plotted,
23 formed an original survivor curve. Each original survivor curve, as plotted from
24 the life table, represents the average survivor pattern experienced by the

1 several vintage groups during the experience band studied. Inasmuch as this
2 survivor pattern does not necessarily describe the life characteristics of the
3 property group, interpretation of the original curves is required in order to use
4 them as valid considerations in service life estimation. Iowa type survivor
5 curves were used in these interpretations. The results of the retirement rate
6 analyses are presented in Part VI of UGI Gas Exhibit C (Future).

7
8 **Q. Please explain briefly what an "Iowa type survivor curve" is and how you**
9 **use it in estimating service life characteristics for each depreciable**
10 **group.**

11 A. The range of survivor characteristics usually experienced by utility and
12 industrial properties is encompassed by a system of generalized survivor
13 curves known as the Iowa type survivor curves ("Iowa curves"). The Iowa
14 curves were developed at the Iowa State College Engineering Experiment
15 Station through an extensive process of observation and classification of the
16 ages at which industrial property had been retired. Iowa curves are the
17 accepted survivor curves for Pennsylvania, as well as the remaining 49 states,
18 and have been for many years.

19 Iowa curves are used to smooth and extrapolate original survivor curves
20 determined by the retirement rate method. The Iowa curves were used in this
21 study to describe the forecasted rates of retirement based on the observed
22 rates of retirement and the qualitative outlook for future retirements.

23 The estimated survivor curve designations for each depreciable group
24 indicate the average service life, the family within the Iowa system, and the

1 relative height of the mode. For example, the Iowa 35-R2 curve indicates an
2 average service life of thirty-five years; and a Right-skewed, or R, type curve
3 (the mode or highest frequency of retirements occurs after average life for right
4 modal curves). It also provides a relatively low height, 2, for the mode (possible
5 modes for R type curves range from 0.5 to 5).

6
7 **Q. Did you physically observe plant and equipment in the field?**

8 A. Yes. Field trips are conducted periodically in order to be familiar with the
9 operation of the Company and observe representative portions of the plant.
10 Field trips are conducted each time a service life study is performed. Service
11 life study reports are submitted to the Commission every five years, at a
12 minimum. UGI Gas's most recent service life study report was performed in
13 2018 and submitted in 2019 in connection with the 2019 base rate case filing
14 at Docket No. R-2018-3006814, Exhibit C (Future). Facilities visited during field
15 trips generally include representative city gate stations, district regulating
16 stations, service centers, etc. The specific dates and locations visited during
17 recent field trips are listed in Exhibit C (Future) in Part III. A general
18 understanding of the function of the plant and information with respect to the
19 reasons for past retirements and expected causes of retirements are obtained
20 during these field trips. This knowledge and information was incorporated in
21 the interpretation and extrapolation of the statistical analyses.

1 **Q. Please describe the second phase of the process that you used in order**
2 **to determine annual depreciation for ratemaking purposes.**

3 A. After I estimated the service life characteristics for each depreciable group, I
4 calculated annual depreciation accruals for each group in accordance with the
5 straight line remaining life method, using remaining lives consistent with the
6 average service life procedure for plant installed prior to 1982 and remaining
7 lives consistent with the equal life group procedure for plant installed in 1982
8 and subsequent years. Summary tabulations of the survivor curve estimates
9 and the annual accrual rates and amounts are set forth on Table 1 of UGI Gas
10 Exhibit C (Historic), UGI Gas Exhibit C (Future), and UGI Gas Exhibit C (Fully
11 Projected). The detailed tabulations of the depreciation calculations are
12 presented in Part III of UGI Gas Exhibit C (Historic) and UGI Gas Exhibit C
13 (Fully Projected) and in Part VII of UGI Gas Exhibit C (Future).

14
15 **Q. Please briefly describe the straight line remaining life method of**
16 **depreciation that you used for depreciable property.**

17 A. The straight line remaining life method of depreciation allocates the original
18 cost less accumulated depreciation in equal amounts to each year of remaining
19 service life.

1 **Q. Please briefly describe the average service life procedure that you used**
2 **in conjunction with the straight line remaining life method for plant**
3 **installed prior to 1982.**

4 A. In the average service life procedure, the remaining life annual accrual for each
5 vintage is determined by dividing future book accruals (original cost less book
6 reserve) by the average remaining life of the vintage. The average remaining
7 life is a directly weighted average derived from the estimated survivor curve.

8

9 **Q. Please briefly describe the equal life group procedure that you used in**
10 **conjunction with the straight line remaining life method for plant installed**
11 **in 1982 and in later years.**

12 A. In the equal life group procedure, the remaining life annual accrual for each
13 vintage is determined by dividing future book accruals (original cost less book
14 reserve) by the composite remaining life for the surviving original cost of that
15 vintage. The composite remaining life for the vintage is derived by weighting
16 the individual equal life group remaining lives. In the equal life group
17 procedure, the property group is subdivided according to service life. That is,
18 each equal life group includes the portion of the property that experiences the
19 life of that specific group. The relative size of each equal life group is
20 determined from the property's life dispersion curve.

21

22 **Q. Please briefly describe the amortization of certain General Plant accounts.**

23 A. General Plant Accounts 391, 393, 394, 395, 397, and 398 include a very large
24 number of units but represent a very small percent of depreciable gas plant.

1 Depreciation accounting is difficult for these assets, inasmuch as periodic
2 inventories are required to properly reflect plant in service. Many utilities have
3 changed to amortization accounting for general plant as a practical and
4 reasonable solution that avoids significant accounting expenditures for such a
5 small percent of plant.

6 In amortization accounting, units of property are capitalized in the same
7 manner as they are in depreciation accounting. However, retirements are
8 recorded when a vintage is fully amortized, rather than as the units are removed
9 from service. That is, there is no dispersion of retirement. All units are retired
10 per books when the age of the vintage reaches the amortization period.

11

12 **VIII. ILLUSTRATION OF DEPRECIATION STUDY PROCEDURE**

13 **Q. Please illustrate the procedure followed in your depreciation study and**
14 **the manner in which it is presented in UGI Gas Exhibit C (Future) using**
15 **an account as an example.**

16 A. I will use Account 376.1, Mains – Primarily Steel, to illustrate the manner in
17 which the study was conducted. Account 376.1 represents 15 percent of the
18 total depreciable gas plant. As the initial step of the service life study phase,
19 aged plant accounting data were compiled for the years 1951 through 2017.
20 These data have been coded in the course of UGI Gas’s normal recordkeeping
21 according to account or property group, type of transaction, year in which the
22 transaction took place, and year in which the gas plant was placed in service.
23 The plant additions, retirements, and other plant transactions were analyzed by
24 the retirement rate method of life analysis.

1 This account includes primarily cathodically-protected, steel mains,
2 although some bare steel mains are still in service. As detailed in UGI Gas
3 Exhibit C, the Iowa 73-R2.5 survivor curve was judged most appropriate for this
4 account and is the survivor curve used for this filing. The 73-R2.5 is a very
5 good fit of the company's historical plant accounting data, consistent with
6 engineering outlook and within the typical range of service lives used by other
7 gas companies for steel mains. The original life table for the 1960-2017
8 experience band is set forth on pages VI-41 through VI-46.

9 The calculation of annual depreciation, the second phase, for the original
10 cost of steel mains in service as of September 30, 2022, is presented by vintage
11 in Part VII on pages VII-55 through VII-63 of UGI Gas Exhibit C (Future) for Gas
12 Plant in Service. The detailed depreciation calculations as of September 30,
13 2023, are presented in Part III of Exhibit C (Fully Projected). The tabular
14 presentations of the detailed depreciation calculations in Part VII of Exhibit C
15 (Future) are similar in kind to those set forth in Part III of Exhibit C (Fully
16 Projected). The expectancy and average life derived from the estimated
17 survivor curve for each vintage were used to calculate the accrued depreciation
18 by the average service life procedure for 1981 and prior vintages.

19 The accrued depreciation for vintages subsequent to 1981 was
20 calculated by the equal life group procedure using the Iowa 73-R2.5 survivor
21 curve. In the calculation, the surviving cost in each vintage was further
22 subdivided, through the use of a computer program, into depreciable groups
23 according to the expected service lives as defined by the Iowa 73-R2.5 survivor
24 curve. The accrued depreciation was derived for each equal life group, based

1 on its service life, and the totals shown for the vintages are the summations of
2 the individually derived amounts.

3 The book reserve was allocated to vintages based on the calculated
4 accrued depreciation. The remaining lives of the vintages were based on the
5 Iowa 73-R2.5 survivor curve, the attained age, and the same group procedures
6 as were used to calculate accrued depreciation. The future book accruals
7 (original cost less allocated book reserve) were divided by the remaining lives
8 to derive the annual depreciation accruals by vintage.

9 The total depreciation accrual on page VII-63 of UGI Gas Exhibit C
10 (Future) was brought forward to column 8 of Table 1 on page V-4 of the exhibit
11 and divided by the total original cost in column 4 in order to calculate the annual
12 depreciation accrual rate in column 7. A similar process was used for the
13 FPFTY.

14
15 **Q. Is the procedure you described for Account 376.1 typical of that followed**
16 **for most of the plant investment?**

17 A. Yes, it is, inasmuch as the straight line method, the average service life, and
18 the equal life group procedures were used for most of the depreciable plant.

19
20 **Q. Please illustrate the procedure followed for the amortization of certain**
21 **General Plant accounts and the manner in which it is presented in UGI**
22 **Gas Exhibit C (Future) using an account as an example.**

23 A. I will use Account 394, Tools, Shop and Garage Equipment, to illustrate the
24 amortization procedure. As the initial step of the amortization procedure, an

1 amortization period of 20 years was selected based on the period during which
2 such equipment renders most of its service, the amortization periods used by
3 other utilities, and the service life estimate previously used for depreciation
4 accounting.

5 The calculation of the annual amortization as of September 30, 2022, is
6 presented by vintage in Part VII on pages VII-162 and VII-163 of UGI Gas
7 Exhibit C (Future). The calculated accrued amortization is based on the ratio
8 of the vintage's age to the amortization period. The book reserve for vintages
9 older than the amortization period was set equal to the original cost. The
10 remaining book reserve was allocated to vintages based on the calculated
11 accrued depreciation. The future book accruals or amortizations (original cost
12 less assigned or allocated book reserve) were divided by the remaining
13 amortization period to derive the annual amortizations by vintage.

14 The total amortization on page VII-163 of UGI Gas Exhibit C (Future) was
15 brought forward to column 8 of Table 1 on page V-5 of UGI Gas Exhibit C
16 (Future). A similar process was performed for UGI Gas Exhibit C (Fully
17 Projected) and UGI Gas Exhibit C (Historic). That is, the calculation of the
18 annual amortization related to the original cost of Tools, Shop and Garage
19 Equipment in service as of September 30, 2023, is presented by vintage on
20 pages III-161 and III-162 of UGI Gas Exhibit C (Fully Projected) and summa-
21 rized in Table 1 on page II-4.

1 **Q. Briefly explain the methods used for the remaining portion of the**
2 **depreciable plant.**

3 A. The life span procedure was applied to major structures in Account 390. The
4 life span procedure was used for groups such as buildings in which concurrent
5 retirement of all property in the group is expected. The life span of both the
6 original installation and subsequent additions is the number of years between
7 installation and final retirement of the group. The complete details, by vintage,
8 of the accrued depreciation and remaining life accrual calculations are set forth
9 for each structure in Part III of UGI Gas Exhibit C (Historic) and UGI Gas Exhibit
10 C (Fully Projected) and in Part VII of UGI Gas Exhibit C (Future).

11
12 **IX. THE NET SALVAGE AMORTIZATION CLAIM**

13 **Q. Please briefly describe the accounting treatment regarding net salvage**
14 **for public utilities operating in Pennsylvania.**

15 A. In accordance with the Uniform System of Accounts and the rules for recovery
16 of net salvage established by the Pennsylvania Superior Court in *Penn*
17 *Sheraton Hotel v. Pa. P.U.C.*, 198 Pa. Super. 618, 184 A.2d 324 (1962), net
18 salvage is charged to the depreciation reserve and is amortized over a five-
19 year period beginning with the year after net salvage is actually incurred.
20 These accounting procedures were affirmed by the Commission in CPG's
21 (formerly PPL Gas Utilities Corporation ("PPL Gas")) 2006 rate filing (Docket
22 No. R-00061398) and have been utilized by UGI Gas in their rate cases ever
23 since. This procedure is consistent with how other Pennsylvania public utilities

1 account for net salvage and is the method used in preparing the Company's
2 ADR submitted each year to the Commission.

3
4 **Q. Earlier in your testimony you indicated that UGI Gas's annual
5 depreciation expense consists, in part, of \$6,083,750 of net salvage
6 amortization. How did you determine that amount?**

7 A. The \$6,083,750 is the result of determining the five-year average of net salvage
8 experienced and estimated during the period of October 1, 2018 through
9 September 30, 2023. Net salvage is defined in the Uniform System of Accounts
10 as gross salvage less cost of removal. For most gas utilities, including UGI
11 Gas, cost of removal exceeds gross salvage resulting in negative net salvage.
12 Negative net salvage is recorded to the depreciation reserve as a debit, which
13 reduces the depreciation reserve. Charges related to the negative net salvage
14 amortization are recorded to the depreciation reserve as a credit in the five
15 years subsequent to the initial recording of the negative net salvage amount.
16 Therefore, the negative net salvage amount will have been fully amortized after
17 five years and the net effect on the depreciation reserve is zero. Detailed data
18 related to the experienced and estimated cost of removal and salvage are
19 presented in Part VIII of UGI Gas Exhibit C (Future) and Part IV of UGI Gas
20 Exhibit C (Fully Projected).

1 **Q. Do you have any other comments on the other items which you are**
2 **sponsoring in this proceeding?**

3 A. Yes. The above testimony does not describe the responses to filing
4 requirements set forth in Items I-A-5, I-A-6, and I-A-7. In general, these
5 responses are self-explanatory. The response to I-A-5 is a comparison of the
6 actual and projected book depreciation reserve with the calculated accrued
7 depreciation as of the end of the HTY, FTY, and FPFTY, respectively. The
8 response to I-A-6 presents the survivor curves used in the most recent general
9 rate proceeding and the annual accrual rates that resulted from the use of these
10 curves. The response to I-A-7 is the cumulative depreciated original cost by
11 installation year as of the end of the test years. The amounts requested in
12 response to I-A-7 are set forth in UGI Gas Exhibit C (Historic) and UGI Gas
13 Exhibit C (Future) in the section titled "Cumulative Depreciated Original Cost."

14

15 **Q. Does this conclude your direct testimony?**

16 A. Yes, it does.

UGI GAS STATEMENT NO. 5

VICKY A. SCHAPPELL

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Docket No. R-2021-3030218

UGI Utilities, Inc. – Gas Division

Statement No. 5

**Direct Testimony of
Vicky A. Schappell**

Topics Addressed: Capital Planning

Dated: January 28, 2022

1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Vicky A. Schappell. My business address is 1 UGI Drive, Denver,
4 Pennsylvania 17517.

5
6 **Q. By whom are you employed and in what capacity?**

7 A. I am employed as a Principal Analyst, Capital Planning by UGI Utilities, Inc. (“UGI”).
8 UGI is a wholly-owned subsidiary of UGI Corporation (“UGI Corp.”). UGI has two
9 operating divisions, the Electric Division (“UGI Electric”) and the Gas Division (“UGI
10 Gas” or the “Company”), each of which is a public utility regulated by the Pennsylvania
11 Public Utility Commission (“Commission” or “PUC”).

12
13 **Q. Please describe your educational background and work experience.**

14 A. They are set forth in my resume attached as UGI Gas Exhibit VAS-1 to my testimony.

15
16 **Q. What are your responsibilities as Principal Analyst?**

17 A. As Principal Analyst, I supervise a team of Analysts in preparing the annual capital budgets
18 for UGI Gas and UGI Electric. I am responsible for obtaining budget inputs from various
19 departments including Engineering, Operations, Corrosion, Marketing, Information
20 Services, and the Building and Grounds Departments. I collaborate with the Vice President
21 of Engineering, the Vice President of Operations, the Director of Engineering Design, the
22 Senior Director Marketing and Community Relations, the Director of Pipeline System
23 Planning and Optimization, the Senior Director Financial Planning and Analysis and
24 Senior Engineering Managers to monitor annual capital budget performance and develop

1 strategies to limit variances in capital installations and spending. I also work closely with
2 the President of UGI in developing the overall capital spend strategy. I have prepared
3 schedules and discovery requests for past rate cases. Also, I am responsible for preparing
4 UGI Gas's Annual Asset Optimization Plan. Additionally, I had an integral role in
5 developing an expanded capital spending monitoring process (as a result of the Company's
6 recent accelerated capital investments programs). This involved upgrading the Company's
7 capital planning, forecasting and budgeting tool, which was implemented in UNITE Phase
8 III-Enterprise Performance Management ("EPM"), which went live in October 2020.

9
10 **Q. Have you previously presented testimony in proceedings before a regulatory agency?**

11 A. Yes. I previously presented testimony in the 2020 UGI Gas Base Rate Case at Docket No.
12 R-2019-3015162.

13
14 **Q. What is the purpose of your testimony?**

15 A. I am providing testimony on behalf of UGI Gas. In my testimony, I will address the
16 Company's capital planning process for this proceeding.

17
18 **Q. Are you sponsoring any exhibits in this proceeding?**

19 A. Yes, in addition to UGI Gas Exhibit VAS-1, I am sponsoring UGI Gas Exhibit VAS-2. I
20 am also sponsoring certain responses to the Commission's standard filing requirements as
21 indicated on the master list accompanying this filing.

1 **II. CAPITAL PLANNING**

2 **Q. Please describe the categories of projects included in the capital budget for UGI Gas.**

3 A. The principal categories for which UGI Gas develops capital budgets are: (1) replacement
4 and betterment infrastructure; (2) new business; (3) information technology; (4) other
5 capital spending; and (5) removal and salvage. The budgeting process is further described
6 in the direct testimony of Tracy A. Hazenstab (UGI Gas Statement No. 2).

7
8 **Q. What are replacement and betterment projects?**

9 A. Replacement and betterment (“R&B”) projects improve or replace existing infrastructure
10 and include, but are not limited to, leak remediation, pipe relocations, material upgrades,
11 service renewals, reliability improvements, and metering and regulation upgrades.

12
13 **Q. How does UGI Gas determine which R&B projects are included in the capital budget
14 for a given year?**

15 A. UGI Gas enters R&B projects into its capital budget according to a risk-based prioritization
16 process.

17
18 **Q. Please describe this risk-based prioritization process.**

19 A. This process prioritizes the replacement of cast iron and bare steel pipe, which are more
20 susceptible to failure from corrosion, cracks, and leakage (as compared to other pipe
21 materials). Risk evaluations for mains are based on numerous factors, including condition,
22 age, coating, type of ground cover, geographical proximity to structures and prior leak
23 and/or break history. UGI Gas reviews these factors annually to identify the highest risk

1 pipe segments and prioritize them for replacement.¹ Specifically, commercial risk
2 evaluation software is used in concert with a team of Subject Matter Experts to evaluate,
3 prioritize, and bundle replacement projects. Furthermore, UGI Gas’s Distribution Integrity
4 Management Plan (“DIMP”) and Transmission Integrity Management Program (“TIMP”) provide a detailed listing of factors considered in the risk-based evaluation, which may
5 cause specific projects to be reprioritized for replacement on a more accelerated basis. This
6 hybrid approach targets the highest risk mains first, while also balancing the need to
7 maximize the efficient deployment of capital and resources.

8
9 UGI Gas’s prioritization of projects for its capital budgets also is consistent with its
10 Long-Term Infrastructure Improvement Plan (“LTIP”), which is described in more detail
11 in the direct testimony of UGI Gas witness, Timothy J. Angstadt (UGI Gas Statement No.
12 9). LTIP replacement investments are in turn identified and prioritized on a risk basis in
13 accordance with UGI Gas’s DIMP.

14
15 **Q. What are new business projects?**

16 A. New business projects provide new or upgraded gas service to customers and may involve
17 the installation of new gas mains and services or conversions to natural gas service (from
18 other heating sources).

¹ When replacing mains, the Company also replaces associated distribution equipment, including service lines, as well as installing or replacing safety and monitoring devices (excess flow valves), meters, risers, and meter bars. Additionally, indoor meters are relocated to an outside location, except in certain circumstances. Similarly, regulator stations and service regulators are reviewed and prioritized for replacement based on nearby main replacement projects or required upgrades due to the updated equipment installed as part of the main replacement program.

1 **Q. Please describe how the new business infrastructure projects are selected for**
2 **inclusion in the capital budget.**

3 A. These projects are selected for inclusion in the capital budget according to forecasts of new
4 business opportunities, projections of customer conversions, and plans for new
5 construction and development projects. New business main extensions under the
6 Company's Growth Extension Tariff ("GET") are planned, prioritized, and included in the
7 budget based on: (1) the guidelines outlined in the Company's Tariff; and (2) projections
8 of customer demand (as measured by new service inquiry responses).

9

10 **Q. What are information technology projects?**

11 A. Information technology ("IT") projects enhance the Company's IT systems. These projects
12 improve the Company's methods (including computerized systems and hardware/software
13 applications) for managing capital projects in a safe and reliable manner. Further, these
14 projects facilitate the Company's ability to enter, store, retrieve, and send data/information
15 related to such projects.

16

17 **Q. Please describe the prioritization process used to evaluate information services**
18 **projects.**

19 A. IT projects are prioritized (for inclusion in the budget) based on the need for new systems
20 and hardware to continue performing capital projects in a safe and reliable fashion. Budget
21 determinations are prioritized by the Company's IT Prioritization Committee, based on
22 overall business impact, availability of system support, and resource availability.

1 **Q. What are other capital projects?**

2 A. Other capital projects include building-related projects, corrosion control projects, capital
3 tool purchases, and fleet purchases. Building-related projects consist of building and land
4 purchases, building improvements/renovations, and the purchase of furniture. Corrosion
5 control projects include upgrades and replacements of cathodic protection systems for
6 mains. Capital tool projects encompass new tool purchases for field use during capital
7 projects. These tools include tapping and stopping equipment, safety tools, and leak
8 detection equipment. Fleet purchases are needed to maintain a reliable mode of
9 transportation for field employees to perform their daily functions. These acquisitions
10 include SUVs, pickup trucks, cargo vans, service body trucks, compressor crew trucks,
11 vacuum trucks, aerial lift trucks, dump trucks, backhoes, excavators, forklifts, and
12 equipment trailers for backhoes and excavators.

13
14 **Q. Please describe the prioritization process used to evaluate other capital projects.**

15 A. Building-related projects are prioritized (for budget inclusion) based on safety/security,
16 regulatory, or financial and strategic needs. Regulatory driven projects originate from audit
17 observations. Physical security audits may prompt the installation of fencing, gates and
18 access controls. Corrosion control projects (involving coated steel main replacements) are
19 prioritized (for budget inclusion) according to requirements set forth in the Federal Gas
20 Safety Regulations (49 C.F.R. Part 192).² Corrosion control projects also may depend on

² Transmission lines may be replaced due to corrosion that affects wall thickness pursuant to 49 C.F.R. § 192.485. Additionally, portions of transmission lines (with localized corrosion pitting) may be replaced pursuant to 49 C.F.R. § 192.485. Similarly, distribution lines with corrosion (or portions thereof with localized pitting corrosion) may be replaced pursuant to 49 C.F.R. § 192.487. Lines also may need to be replaced if they lack cathodic protection systems, as detailed in 49 C.F.R. § 192.463.

1 unrepairable leakages or emerging main issues. Capital tool projects are prioritized (for
2 budget inclusion) according to the useful life of the existing assets. Fleet purchases are
3 prioritized (for budget inclusion) based on age, condition, maintenance costs, and mileage
4 of the existing asset.

5
6 **Q. What are removal and salvage projects?**

7 A. Removal and salvage projects include main and service retirements where assets are not
8 replaced. Additionally, this category of spend includes the environmental projects
9 performed at UGI Gas (including mercury regulator remediation and waste disposal).

10
11 **Q. Please describe the prioritization process used to evaluate removal and salvage
12 projects.**

13 A. These projects are identified and prioritized (for budget inclusion) through the same risk-
14 based prioritization process used for the R&B projects. Environmental projects are entered
15 into the budget as they are identified in the field. These kinds of capital projects are
16 budgeted on a project level and are rolled up to UGI Gas and UGI Electric (as appropriate).
17 Capital projects of general application to UGI are budgeted by UGI and costs are allocated
18 to the divisions in accordance with the Modified Wisconsin Formula (“MWF”).

19
20 **Q. How have UGI Gas’s actual capital additions compared to budgeted capital additions
21 (in relation to the above-described categories)?**

22 A. Over the past five years, the Company’s total budgeted capital additions (including all of
23 the above-described categories) was \$1,700,335,000, while the total actual capital

1 additions was \$1,666,254,000; there was a \$34,081,000 variance. More specifically,
2 during this period, the Company's plant additions were 98.0% of its budget. (See UGI Gas
3 Exhibit VAS-2). This close correlation between budgeted and actual plant placed in
4 service over the past five years further supports the Company's claimed level of plant in
5 service in this case, which is discussed in the testimony of UGI Gas witness Vivian K.
6 Ressler (UGI Gas Statement No. 3).

7
8 **III. UNITE PHASE III-ENTERPRISE ASSET MANAGEMENT ("EAM")**

9 **Q. Please describe the asset data collection tool that will be implemented in UNITE Phase**
10 **III-EAM.**

11 A. UNITE's current EAM project is a multi-phase project that will develop a new database to
12 manage Company assets, including supporting applications. In 2021, the Company started
13 the EAM's asset data collection phase, which focuses on the identification, standardization
14 and capture of asset data information across UGI. It will cost UGI (the Electric and Gas
15 Divisions) approximately \$43,000,000 to replace its existing system and leverage the same
16 tools for similar process that will occur across UGI by the end of the FPFTY. One goal
17 will be eliminating paper-based processes and providing automation to improve reliability
18 and streamline operations. With respect to systems, the new EAM will be integrated with
19 a consolidated gas and electric Geographic Information System ("GIS"), and other systems.
20 The asset data collection phase is laying the groundwork for the future phases of UNITE,
21 including a new GIS system.

22 The new EAM project will result in many positive impacts and benefits to the
23 Company's teams. The new system will reduce redundancies in field crew workflows and
24 forms associated with the installation of Company assets to serve customers. Less back-

1 office work will be required to document asset installations, as more complete and accurate
2 asset data will be gathered and uploaded in the field upon installation.

3 Some of the benefits will include real-time asset data updates, reduced mapping
4 delays, more accurate asset detail and location cataloguing, and barcode scanning
5 capability. These capabilities will reduce data entry time and potential asset location errors.
6 The Company will be able to easily track and locate its assets in the event of recalls,
7 markouts, maintenance, or other necessary rework. More specifically, field personnel will
8 utilize handheld devices that scan material attributes as contained in asset barcodes from
9 the manufacturer (for storage in the information system). These devices will capture and
10 utilize real world accurate locations for each installed asset (by way of actual coordinates
11 obtained from satellite technology in the field).

12 One key change will be that the data for newly installed assets will be immediately
13 visible/accessible in digital form (*i.e.*, system maps). Updates also will undergo a final
14 review and approval by the Mapping Department after the new asset data is uploaded to
15 the system. This will avoid line hits and improve the accuracy of facility mark outs.
16 Improving UGI's spatial data is one of several data cleansing and enhancement initiatives
17 to support UGI's future EAM data-centric business model. Based on a split of plant in
18 service between UGI Gas and UGI Electric, \$41,200,001 (of the total \$43,000,000 amount)
19 is being included in the gas capital budget for the fully projected future test year ("FPFTY")
20 in this case.

21 **IV. CONCLUSION**

22 **Q. Does this conclude your direct testimony?**

23 **A.** Yes, it does.

UGI GAS

EXHIBIT VAS-1

Vicky A. Schappell
Principal Analyst – Capital Planning

UGI Utilities, Inc. (Reading, PA)

Principal Analyst - Capital Planning	January 2020-Present
Senior Analyst - Capital Planning	April 2018-January 2020
Senior Supervisor Plant Accounting	December 2014-April 2018
Senior Analyst - General Ledger	September 2011-December 2014
Analyst II – General Ledger	September 2008-September 2011

Teleflex Medical (Reading, PA)

Accounting Supervisor	December 2007-September 2008
Senior Accountant – Financial Reporting	March 2003-December 2007
Staff Accountant – Financial Reporting	October 1999-March 2003

Heffler, Radetich & Saitta, LLP (Philadelphia, PA)

Auditor	May 2007-October 1999
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Education

B.S. in Accounting, Shippensburg University, 1997

Previous Testimony

UGI Gas Base Rate Case	Docket No. R-2019-3015162
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UGI GAS

EXHIBIT VAS-2

UGI UTILITIES, INC. - GAS DIVISION
Plant Placed in Service compared to Budget
 \$ amounts in '000s

	2017		2018		2019		2020		2021		5 Year Total		Actual vs.
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
Growth	\$ 44,776	\$ 39,788	\$ 58,645	\$ 77,356	\$ 69,288	\$ 61,681	\$ 65,000	\$ 72,568	\$ 65,503	\$ 83,941	\$ 303,212	\$ 335,334	\$ 32,122
IT	\$ 63,661	\$ 76,619	\$ 22,338	\$ 14,345	\$ 67,809	\$ 63,652	\$ 36,203	\$ 12,900	\$ 10,433	\$ 19,105	\$ 200,443	\$ 186,621	\$ (13,822)
Other	\$ 17,342	\$ 14,073	\$ 17,806	\$ 12,756	\$ 63,907	\$ 58,437	\$ 27,987	\$ 28,259	\$ 65,000	\$ 48,527	\$ 192,042	\$ 162,053	\$ (29,990)
Replacement and Betterment	\$ 149,591	\$ 166,349	\$ 185,392	\$ 204,472	\$ 196,274	\$ 189,279	\$ 225,308	\$ 192,251	\$ 248,073	\$ 229,895	\$ 1,004,637	\$ 982,246	\$ (22,391)
Total Additions	\$ 275,370	\$ 296,829	\$ 284,181	\$ 308,929	\$ 397,278	\$ 373,049	\$ 354,497	\$ 305,979	\$ 389,008	\$ 381,469	\$ 1,700,335	\$ 1,666,254	\$ (34,081)
					\$ -						(1)	(2)	
									Capital Spend as % of Budget		(2) / (1)	98.0%	