

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC :
UTILITY COMMISSION, ET AL. :

v. :

UGI UTILITIES, INC. - :
GAS, DIVISION :

Docket No. R-2011-2238953
C-2011-2243186
C-2011-2248211

ORIGINAL

INDEX OF REBUTTAL TESTIMONY

1. UGI Statement No. 1-R – William J. McAllister
2. UGI Statement No. 2-R – David C. Beasten
3. UGI Statement No. 3-R – Shaun Hart

8/8/11
Hart
wjt

RECEIVED
2011 AUG 12 PM 12:39
SECRETARY'S BUREAU

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC
UTILITY COMMISSION, ET AL.

v.

UGI UTILITIES, INC. –
GAS DIVISION

:
:
:
:
:
:
:
:

Docket No. R-2011-2238953
C-2011-2243186
C-2011-2248211

REBUTTAL TESTIMONY
of
WILLIAM J. McALLISTER

UGI STATEMENT No. 1-R

Dated: July 25, 2011

RECEIVED
2011 AUG 12 PM 12:39
SECRETARY'S OFFICE

1 Q. Please state your name and business address.

2 A. My name is William J. McAllister, and my business address is UGI Utilities, Inc., Gas
3 Division, 2525 N. 12th Street, Reading, PA 19612-2677.

4
5 Q. Are you the same William J. McAllister who provided direct testimony in this
6 proceeding?

7 A. Yes, I am.

8
9 Q. What is the purpose of your rebuttal testimony?

10 A. I will address the issues raised by Office of Trial Staff (OTS) witness Dorothy Morrissey
11 concerning the development of UGI's proposed "E-Factor"/Migration Rider charge to be
12 effective December 1, 2011.

13
14 Q. What issues has Ms. Morrissey identified?

15 A. Ms. Morrissey has identified four issues: (1) an unresolved overcollection adjustment
16 from UGI's 2009 PGC proceeding; (2) a proposed adjustment to UGI's 2011
17 undercollection balance; (3) an alleged failure to include migrating customer gas volumes
18 in calculating the E-factor; and (4) a proposed adjustment to volumes used to calculate
19 the PGC(2) E-factor.

20
21 2009 Adjustment

22 Q. What adjustment has Ms. Morrissey proposed related to an unresolved 2009
23 undercollection adjustment?

1 A. Ms. Morrissey correctly notes that UGI overstated its undercollection balance in its 2009
2 PGC filing by \$259,913 (\$251,124 plus \$8,789 interest), agreed to correct this error in its
3 2009 PGC compliance filing, and subsequently failed to do so. She then proposes to
4 correct these errors by making a \$290,048 adjustment to UGI's 2011 undercollection
5 claim representing the original \$259,913 error plus additional interest of \$30,135 to
6 reflect the additional time that has elapsed.¹

7
8 Q. Do you agree with this recommendation?

9 A. I agree that a \$259,913 adjustment should be made to UGI's 2011 PGC undercollection
10 balance, since this is the adjustment UGI agreed to make in its 2009 PGC compliance
11 filing. I do not agree, however, that \$30,135 of additional interest should be assessed.

12
13 Q. Why is this proposed adjustment not appropriate?

14 A. It is not appropriate because (1) the failure to include the adjustments in the compliance
15 filings were inadvertent and unintentional and (2) UGI does not collect interest on all
16 adjustments to E-factor balances, including those that favor PGC customers.

17
18 Q. Can you provide an example of an E-factor adjustment where UGI has not claimed
19 interest?

20 A. Yes. In the current PGC proceeding UGI has estimated that its Prior Period
21 Undercollection will equal \$2,989,461. (See Schedule C, Page 4). This amount reflects

¹ On page 8 of her testimony, Ms. Backer characterizes the \$290,048 adjustment as the original \$251,124 undercollection adjustment plus \$38,924 for interest. The \$38,924 interest amount includes the \$8,789 of interest that UGI agrees should be refunded to customers as well as \$30,135 of additional interest related to the prior period adjustment.

1 the estimated unrecovered undercollection balance that will exist as of November 30,
2 2011 with respect to its December 2010 undercollection beginning balance of
3 \$32,252,552. UGI, consistent with past practice, has not sought to recover another year's
4 worth of interest on this prior period unrecovered balance of \$2,989,461, even though it
5 has been deprived of the use of this money for an additional period of time. If, as Ms.
6 Morrissey has suggested, however, UGI will now be subject to interest charges on
7 balances related to inadvertent errors, UGI believes that it should be able to claim an
8 additional \$174,691 of interest to be recovered from its customers associated with the
9 \$2,989,461 prior period undercollection balance. In my opinion, it is inconsistent and
10 unfair for Ms. Morrissey to advocate for an additional two years of interest for a
11 correction, while ignoring the fact that UGI has a significant unrecovered prior period
12 undercollection for which it has not claimed interest.

13
14 Q. Please summarize your recommendations concerning Ms. Morrissey's adjustment.

15 A. UGI should be directed to make the originally agreed to correction of \$259,913 in its
16 compliance filing in this proceeding. Further, if the Commission adopts Ms. Morrissey's
17 recommendation to make a further adjustment to reflect interest on this balance, even
18 though UGI has been substantially undercollected during the relevant time period for
19 prior period balances, then I recommend that the Commission also permit UGI to collect
20 interest on the prior period imbalance that existed as of November 30, 2010 and
21 November 30, 2011 respectively. Moreover, in the event that the Commission adopts the
22 OTS recommendation, UGI should be permitted to apply this methodology in future PGC

1 proceedings and will include interest on prior period over/under collection balances in
2 those proceedings.

3

4 2011 Undercollection Adjustment

5 Q. Has Ms. Morrissey proposed a separate adjustment to UGI's 2011 prior period
6 undercollection balance?

7 A. Yes. She has proposed a \$115,262 adjustment to reflect two billing month discrepancies
8 that occurred in March and December of 2010.

9

10 Q. Do you agree with this adjustment?

11 A. Yes.

12

13 Migrating Customer Volumes

14 Q. On page 11 of her direct testimony Ms Morrissey claims that UGI did not recognize
15 migrating customer volumes in developing its E-factor rate, and that this could cause
16 migrating customers to pay a larger portion of unrecovered gas costs they should. Do
17 you agree?

18 A. No. UGI did include 450,000 Mcf of applicable Migration Rider volumes in the deriving
19 the proposed E-Factor for PGC year beginning December 1, 2011. Schedule C, Page 1 of
20 UGI's June 1, 2011 PGC filing (Book 2) quantifies a "S" Sales component in the amount
21 of 28,616,612 MCF, which, when divided into the Undercollection amount, results in the
22 so called "E-Factor", or Migration Rider of \$0.6212/Mcf. This projected Sales amount
23 differs from that shown on Schedule A, Page 1, since it recognizes an estimated 450,000

1 Mcf of projected Customer Choice volumes subject to the Migration Rider. Thus, UGI
2 has reflected Customer Choice volumes in the derivation of its proposed December 1,
3 2011, PGC (1) E-Factor.
4

5 Q. Has UGI recently updated its estimate of such Migration Rider volumes?

6 A. Yes. UGI has recently refined the estimate for the Customer Choice volumes subject to
7 the Migration Rider, and will reflect 1Bcf of applicable Migration Rider volumes in the
8 derivation of the E-factor to be submitted in its compliance filing in this proceeding.
9

10 PGC(2) Adjustment

11 Q. On page 12 of her direct testimony Ms. Morrissey claims that UGI incorrectly used 2010
12 PGC(2) volumes in computing the PGC(2) E-factor. Do you agree?

13 A. Yes. UGI should have used projected sales volumes of 63,548 Mcf in computing the
14 PGC(2) E-factor, and will correct this error in its compliance filing in this proceeding.
15

16 Q. Does that conclude your rebuttal testimony?

17 A. Yes.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC
UTILITY COMMISSION, ET AL.

v.

UGI UTILITIES, INC. -
GAS, DIVISION

:
:
:
:
:
:
:

Docket No. R-2011-2238953
C-2011-2243186
C-2011-2248211

REBUTTAL TESTIMONY
OF
DAVID C. BEASTEN

UGI STATEMENT NO. 2-R

July 25, 2011

REC'D CIVIL RIGHTS
2011 AUG 12 PM 12:39
SECRETARY'S OFFICE

1 Q. Please state your name and business address.

2 A. My name is David C. Beasten, and my business address is UGI Utilities, Inc. - Gas
3 Division, 2525 N. 12th Street, Reading, PA 19612-2677.

4
5 Q. Are you the same David C. Beasten who provided Direct Testimony in this proceeding?

6 A. Yes, I am.

7
8 Q. What is the purpose of your testimony?

9 A. I will respond to the testimony submitted on behalf of the Office of Consumer Advocate
10 by Jerome D. Mierzwa on July 11, 2011. Specifically, I will respond to Mr. Mierzwa's
11 recommendations regarding (1) UGI's design day demand for UGI's sales and small
12 transportation customers, (2) design cold conditions used by UGI for winter season
13 capacity planning purposes and (3) UGI's requests for proposal ("RFPs") for replacement
14 capacity.

15
16 Q. Please summarize your response to Mr. Mierzwa's three recommendations?

17 A. (1) Mr. Mierzwa draws overly broad and unsupported conclusions about load growth and
18 customer conservation from a very limited and selective data set that includes one of the
19 most severe recessions since the great depression. In accordance with long-standing
20 Commission-approved procedures, UGI plans its long-term supply needs on a multi-year
21 basis since it often enters into long-term contracts for critical gas supply assets.
22 Important long-term gas supply planning decisions to support reliable and economic
23 service to customers should not be based on such limited information and unsupported

1 assumptions that peak demands occurring during a severe recession will persist into the
2 future. Indeed, there is considerable evidence that UGI will experience significant load
3 growth as customers accelerate conversions to natural gas, given its abundance and
4 current price advantage over alternate energy sources such as oil and electricity, and as
5 more normal patterns of economic growth resume.

6
7 (2) UGI's determination of design cold conditions utilized for winter season capacity
8 planning purposes is reasonable and should be retained.

9
10 (3) Mr. Mierzwa's recommendations to modify the amount of capacity to be solicited in
11 UGI's planned RFPs are based entirely on his first two recommendations and should be
12 similarly rejected. In addition, Mr. Mierzwa's recommendations to modify the timing
13 and duration of the RFPs should be rejected since it would not encourage more bids and,
14 in fact, would discourage bidders from offering alternative lower-cost products that need
15 to be supported by new construction since there would not be sufficient lead time after
16 the RFP award date to complete such construction. Moreover, Mr. Mierzwa's
17 recommendation to eliminate the no-notice and hourly volume adjustment provisions for
18 6,500 dth of UGI's peaking service RFP are not reasonable because the no-notice
19 provision on the 6,500 dth of peaking service provides UGI with the ability to limit the
20 number of days of the service or the seasonal quantity. Based on UGI's experience,
21 limiting the amount of a service reduces its cost.

Design Day Planning

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

Q. How does UGI plan to have sufficient gas supply assets to meet its statutory obligation as the supplier-of-last-resort (“SOLR”) for PGC and small transportation customers (“Core Market Customers”)?

A. UGI must acquire firm reliable gas supply assets sufficient to meet the requirement of Core Market Customers under design cold conditions, including the reasonably anticipated coldest day as well as other very cold days. To determine these requirements UGI first determines the coldest day for which it must prudently plan, as well as the temperature profiles for other very cold winter days. Second, UGI determines the quantity of gas Core Market Customers will use on these “design cold” days. These are extremely important decisions for two principal reasons. First, UGI must often enter into long-term contracts to ensure the delivery of gas supplies to its system on a primary firm basis, and often these long-term commitments support the construction of upstream gas infrastructure necessary to meet the long-term gas supply requirements of UGI’s market area. Errors in assumptions about long-term customer requirements can therefore lead to under-investment in necessary infrastructure and higher market prices. Second, in the event sufficient gas supply assets are not in place to meet firm demand, UGI could be forced to curtail firm service to larger customers, leading to economic disruptions, or to Core Market Customers, creating potential threats to human life and property. Moreover, if a geographic area were to lose gas service, UGI would be forced to visit each service location to valve off all pilot lights before restoring service. Such a gas loss scenario occurred in February of this year in areas of New Mexico when there was a loss of gas supplies during unusually cold weather for that area.

1 Q. Which portion of the gas supply planning process discussed above does Mr. Mierzwa's
2 first recommendation address?

3 A. Mr. Mierzwa addresses UGI's estimate of what Core Market Customer usage will be
4 under design cold conditions. Briefly, Mr. Mierzwa performs his own regression analysis
5 of customer usage over a four-year period, observes "the total design peak day demands
6 of [UGI's] PGC and Choice customers have remained close to the average for the period"
7 (OCA Stmt. 1, p. 7, lines 8-9), concludes that the "the design day demands of new
8 customers have been offset by existing customer conservation efforts ...not reflected in
9 UGI's design peak day forecasting procedures" (OCA Stmt. 1, p. 7, lines 11-14), and
10 proposes, in concert with temperature profile changes proposed in his second
11 recommendation, that UGI reduce the level of gas supply assets acquired to meet Core
12 Market Customer requirements.

13

14 Q. Is Mr. Mierzwa's first recommendation reasonable?

15 A. No. It is not reasonable because (1) the period reviewed by Mr. Mierzwa includes one of
16 the most significant recessions since the Great Depression, and is not typical of
17 conditions UGI should expect and prudently plan for to meet future Core Market
18 Customer requirements; (2) contrary to Mr. Mierzwa's conclusions, there is significant
19 evidence that UGI will experience increased Core Market Customer usage because (a)
20 more customers are turning to gas given its now significant price advantage over
21 competing energy sources, (b) given the current spread between oil and natural gas prices
22 more small interruptible customers are likely to switch to firm service, and (c) of the
23 resumption of more normal economic activity; and (3) the variations observed by Mr.

1 Mierzwa and relied upon as the basis of his long-term predictions are likely the result of
2 normal statistical variations given the inherent imprecision of the regression analysis
3 process.

4
5 The Period Reviewed

6 Q. Mr. Mierzwa attributes the slight decline in demand observed in his regression analysis to
7 long-term and permanent trends in customer conservation. Is this reasonable?

8 A. No. According to the National Bureau of Economic Research, the United States entered
9 a recession beginning in December 2007. The media has referred to this recession as the
10 "Great Recession" since it was one of the most severe recessions since the Great
11 Depression. According to the Bureau of Labor Statistics, the national unemployment rate
12 for June 2011 was 9.2 percent which is high relative to unemployment before the
13 recession. Any economic downturn, not to mention the recent Great Recession, will
14 temporarily affect design day requirements because commercial and industrial customers
15 will use less energy as the demand for their products and services is reduced. Further, the
16 Great Recession undoubtedly increased the number of empty commercial buildings in
17 UGI's service territory. Even when these buildings are empty, UGI most likely still has a
18 meter in service because these buildings typically need to be heated to prevent pipes from
19 freezing. Similarly, with the downturn in the residential housing market, more homes
20 may be vacant but still have an active service to maintain enough heat to keep the pipes
21 from freezing. These temporarily unoccupied units may show up as reduced demand
22 which could be misinterpreted as conservation. However, once the housing market and
23 economy pick up, both residential and commercial vacancy rates will likely be reduced

1 leading to increased energy use. Since the last three periods Mr. Mierzwa modeled
2 coincide with the recession, it is not surprising that his study, assuming it is statistically
3 meaningful, may reflect some reduction in peak day use. Indeed, given the severity of
4 the recession, it is perhaps surprising the analysis does not show an even greater
5 reduction in usage. Mr. Mierzwa's failure to consider the state of the economy during the
6 period reviewed in his regression analysis is a serious flaw. Long-term critical gas
7 supply planning decisions should not be made based on analyses of short-term events
8 occurring during unusual economic conditions.

9 10 Evidence of Growth

11 Q. How did Mr. Mierzwa account for potential growth in Core Market Customer demand in
12 his regression analysis?

13 A. On page 7, lines 7-10, of his testimony, Mr. Mierzwa states that he incorporated actual
14 numbers of customers served during each winter season for the four-year period he
15 reviewed, and that "therefore, customer growth is already incorporated in the four
16 individual forecasts."

17
18 Q. Is that the appropriate manner for forecasting future demand?

19 A. No. As previously noted, the period reviewed was highly atypical and should not form
20 the sole basis for long-term projections. Instead, UGI must also consider other
21 information about trends in Core Market Customer demand. Mr. Mierzwa does not
22 provide any other evidence, studies or analysis supporting his claims relating to customer
23 conservation. UGI has made formal discovery requests to determine if Mr. Mierzwa

1 relied on any documents, data, studies, journal articles, or analyses beyond his regression
2 analysis. Responses to these discovery requests were not received prior to the filing
3 deadline for rebuttal testimony, and I reserve the opportunity to supplement my rebuttal
4 testimony, if necessary, based on those responses.

5
6 Q. Does UGI have any evidence concerning the future direction of long-term Core Market
7 Customer peak demand?

8 A. Yes, Table 1 below shows UGI's net actual increase in residential and commercial
9 customers over a period extending before the period reviewed under Mr. Mierzwa's
10 analysis.

11 Table 1 - Customer Growth

	Net Residential Heating Customers Added	Increase	Net Commercial Heating Customers Added	Increase
2004	8,926	4.12%	896	3.03%
2005	6,866	3.05%	810	2.66%
2006	8,626	3.71%	551	1.76%
2007	5,654	2.35%	260	2.08%
2008	6,104	2.48%	442	1.36%
2009	6,091	2.41%	662	2.01%
2010	5,685	2.20%	114	0.34%
2011 1/	5,854	2.21%	490	1.46%

12 1/ Forecast with 9 months actual and 3 months forecast.

13
14 Q. Does UGI believe the number of new customers will increase in the next few years?

1 A. Core market Customer loads will likely increase because gas is now a compelling value
2 compared to competing energy sources, and this has fueled a surge in customer
3 conversions. In addition, UGI expects to see more normal patterns of economic growth
4 in its service territory.

5
6 Q. Has there been a shift in the nature of new customer growth?

7 A. Yes. Prior to the recession, about half of the new customers UGI added were newly
8 constructed homes. With the downturn in the housing market, the number of new homes
9 UGI has been able to add annually has declined by about fifty percent (50%). At the
10 same time, the divergence between oil and natural gas prices has substantially increased
11 the number of conversions to natural gas from other heating sources. Table 2 shows the
12 number of new Residential Heating customers broken down by new construction and
13 conversions.

14 Table 2 – Residential Heating Customers Added

	Residential Heating New Construction	Residential Heating Conversions	Total
2006	7,042	2,650	9,692
2007	5,536	2,690	8,226
2008	4,434	4,439	8,873
2009	3,443	4,553	7,996,
2010	3,441	3,235	6,676
2011	3,575	4,148	7,723

15

1 A conversion occurs when UGI provides natural gas distribution service to a house that
2 either did not have an active natural gas service or did not use natural gas for space and
3 water heating. As Table 2 shows, the number of conversion customers has increased
4 from approximately 2,650 customers in 2006 to a projected 4,148 customers in 2011.

5 UGI projects further increases in customer conversions due to the continuing
6 price differential between the cost of natural gas and heating oil. Exhibit No. UGI-DCB-
7 3 shows the NYMEX forward prices for natural gas and heating oil converted to
8 \$/MMBtu and shows that natural gas now has a significant cost advantage over heating
9 oil. This price differential should result in further conversions to natural gas since the
10 savings will be large relative to the cost of investing in a new furnace, thus supporting the
11 projected increase in customer additions. UGI estimates that the average household can
12 save almost \$1,900 a year by converting heating, water heating and other appliances to
13 gas. If only heating and water heating are converted, the annual savings would be
14 slightly less than \$1,700. Exhibit No. UGI-DCB-4 shows the details behind the cost
15 savings. Moreover, UGI is projecting to add more new customers as the housing market
16 rebounds from the current and historically low levels.

17
18 Q. Is the significant spread between oil and natural gas prices likely to increase Core market
19 Customer demand in other ways?

20 A. Yes. Table 1 also shows the historical and expected increase in the number of net
21 commercial heating customers. However, in addition to the customers listed in Table 1,
22 UGI anticipates adding approximately 150 small firm commercial customers with an
23 estimated peak day demand of 13,000 Dth as a result of such customers switching from

1 interruptible to firm rate schedules. These firm customer additions are expected because
 2 interruptible service rates are primarily based on the price of the customer's installed
 3 alternate fuel, such as oil, and at current oil prices firm gas service rates look more
 4 attractive. Table 3 shows the number of these customers and their usage. This load is not
 5 currently factored into UGI's design day calculation because the information was not
 6 available at the time of filing. These small commercial loads would further increase the
 7 peak day growth supporting an increase to UGI's filed peak day demand.

8
 9 Table 3 – Projected Small Commercial Firm Heating Customer Growth

	Customers	Average January Daily Use (Dth)	Peak Day Demand (Dth)
2011	345	19,299	32,659

10
 11 Statistical Imprecision

- 12 Q. Can you describe how Mr. Mierzwa drew his conclusions from his regression analysis
 13 and why these conclusions are inappropriate?
- 14 A. Mr. Mierzwa regressed each of the past four years individually and also averaged the
 15 results from the four individual regressions, see page 7, Table 2 of Mr. Mierzwa's direct
 16 testimony. On page 7, lines 7 – 9, of his direct testimony Mr. Mierzwa states "despite
 17 increases in the number of customers served by UGI the total design peak day demands
 18 of the PGC and Choice customers have remained close to the average." The fact that
 19 demands have remained close to the average, however, does not demonstrate customer

1 conservation. UGI's demands, as with the demands of many utilities, do not typically
2 change in large percentage increments from year to year. Therefore, the average of four
3 years of data will be "close" to any one of the individual data points. Mr. Mierzwa
4 further states on page 7, lines 9 – 11, of his direct testimony that "[total peak day
5 demands] have actually declined from the 2007-2008 winter season to the most recent
6 2010-2011 winter season." Mr. Mierzwa, however, conveniently picked only two of the
7 four data points to support his conclusion that customers are conserving and the peak day
8 is decreasing. If he had instead used the regression results from the 2007-2008 and 2009-
9 2010 winter seasons, or 477,046 dth and 500,326 dth, respectively, as shown on Mr.
10 Mierzwa's Table 2, the results would have shown that UGI's peak day grew by 23,280
11 dth over two years. This shows that it is misleading and inappropriate to draw broad
12 conclusions from such a limited set of data. Basing important gas supply decisions on
13 such potentially misleading and inappropriate conclusions would introduce an
14 unacceptable level of volatility to UGI peak day demand planning, and could cause UGI
15 to enter into or drop contracts year-to-year leaving customers unprotected in some years
16 and potentially driving up costs in other years as assets are acquired or reacquired based
17 on misleading conclusions drawn from limited data sets.

18
19 Q. What conclusion did Mr. Mierzwa draw from his flawed analysis?

20 A. Mr. Mierzwa concluded that UGI's growth was mitigated by customer conservation. As
21 I explain above, Mr. Mierzwa fails to consider the impacts of the recent severe recession.
22

1 Q. Are there other reasons to question Mr. Mierzwa's interpretation of the regression
2 analysis?

3 A. Yes. A regression analysis for demand at UGI, or any other distribution company, does
4 not produce a perfect correlation. Simply stated, while a regression analysis is a
5 sophisticated statistical planning tool, at the end of the day, it is a forecast of future
6 conditions and by its nature must be based on a large number of assumptions which may
7 or may not prove to be accurate. The accuracy of the correlation is measured by a factor
8 called R squared. If the R squared value is less than one, the correlation is not perfect.
9 UGI's R squared values, while considered reasonably accurate are less than one and not
10 perfect. Therefore, there is inherently some error in the regression analysis and demand
11 projections. On page 6, lines 10-11, of his direct testimony, Mr. Mierzwa notes a one
12 percent difference between his re-creation of UGI's analysis and dismisses this as "not
13 material". Small differences of one to two percent between regression equations are not
14 uncommon because there is not perfect correlation. Yet, Mr. Mierzwa tries to draw a
15 conclusion about conservation from his Table 2 when the total variation over the four-
16 year period is 0.8%. This "trend" that Mr. Mierzwa uses to explain conservation could
17 very well be small errors or variations in the analysis.

18

19 Design Season Requirements

20 Q. Mr. Mierzwa recommends that the design cold conditions UGI uses for winter capacity
21 planning are too extreme and be should be reduced. Do you agree?

22 A. No. The design seasonal requirements were developed in conjunction with the design
23 day methodology approved in a settlement of UGI's 2007 PGC at Docket No. R-

1 00072335. For UGI, the design day was set at minus 3.6 degrees Fahrenheit for its
2 primary service area (a separate level was set for UGI's Hazelton service area, Mr.
3 Mierzwa does not challenge the design temperature profile for this area in his testimony).
4 UGI carried this change through in calculating the remainder of the design cold season
5 requirements for its primary service area, and believes that this is a reasonable approach
6 for estimating the design cold profiles for its Core Market Customers. Increasing the
7 seasonal temperatures and thus reducing the amount of supplies that UGI would arrange
8 to be called upon during an extremely cold winter could ultimately increase PGC costs.
9 Having too few supplies available would most likely affect the coldest days of the season
10 excluding the design day. Generally these would be the second through tenth coldest
11 days. If UGI would not have supplies arranged to meet Core Market Customer
12 requirements during these days, UGI would most likely have to purchase delivered gas at
13 UGI's distribution system. Reliance upon this type of supply can be risky for two
14 reasons. First, in extremely cold weather there is no guarantee the supplies may be
15 available since the pipelines are likely to be full and pipeline restrictions could be in
16 place that would prevent deliveries that do not have UGI as the primary delivery point.
17 Second, because the demand for capacity and related gas supplies are likely to be high
18 during such periods of cold weather, the price for any supplies that might be available to
19 UGI could be very expensive. In past years, I have seen city gate delivered gas cost as
20 much as \$64/Dth. For these reasons, I believe that UGI's design cold conditions are
21 reasonable and should be approved.

22

RFP Process

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

Q. Mr. Mierzwa recommends that the UGI RFP award date to secure replacements for certain peaking service contracts addressed in my direct testimony should be modified to allow potential bidders six months to respond. OCA Stmt. 1, p. 14, lines 12-13. Do you believe this recommendation is reasonable?

A. No. Extending the RFP response time to six months would virtually eliminate any supply option that would entail the construction of new facilities. Construction of new facilities could take more than a year, and delaying the RFP award date would not leave sufficient construction time for potential bidders that might want to provide a service that requires the construction of such new facilities. Accordingly, Mr. Mierzwa's proposal is not a least cost or prudent option.

Moreover, long RFP response times often lead to less, and not more, responses. The standard industry time period for open seasons is generally three to four weeks. For example, Millennium Pipeline recently announced an open season of two weeks. Potential suppliers are unlikely to begin working on the RFP until late in the RFP process in any event since they want to price their offering based on the latest available market information. Thus, UGI generally receives questions from potential bidders a day or two before the RFP response deadline, and bids are generally submitted within a few hours of the response deadline. It is accordingly unlikely that a longer RFP response time will produce more or better responses and could result in fewer responses.

In addition, Mr. Mierzwa apparently assumes that a long RFP response time is needed because potential suppliers will not be aware of UGI requirements before the issuance of the RFP. That is not the case. UGI regularly holds collaboratives with retail

1 choice suppliers where capacity issues are discussed. UGI also regularly meets with
2 suppliers individually and discusses upcoming supply and capacity needs. UGI's PGC
3 filings are also public documents and show UGI's future requirements. Thus, potential
4 bidders do not need a long RFP response time since they are already aware of UGI's
5 future requirements and have most likely already considered what options they might be
6 able to offer UGI to meet those future needs.

7
8 Q. On page 13 of his testimony, Mr. Mierzwa states that no-notice and hourly volume
9 adjustment provisions of UGI's RFP for peaking service should be eliminated. Do you
10 agree with this recommendation?

11 A. There is no merit to Mr. Mierzwa's suggested revisions to the nature of the service
12 requested. Mr. Mierzwa's recommendation to eliminate the no-notice and hourly volume
13 adjustment provisions for 6,500 dth of UGI's peaking service RFP are not reasonable
14 because the no-notice provision on the 6,500 dth of peaking service provides UGI with
15 the ability to limit the number of days of service or the seasonal quantity. Based on
16 UGI's experience, limiting the amount of a service or a service's seasonal quantity
17 reduces its cost. Since no-notice service can be called upon exactly when it is needed, the
18 service can be reserved and called upon at the last minute. By comparison a regular
19 service or day-ahead service requires UGI to call on the service the day before it was
20 needed, or in the case of weekends, UGI must call on the service on Friday for ratable
21 delivery on Saturday, Sunday and Monday. A no-notice service can be used judiciously
22 allowing UGI to limit the 6,500 dth of peaking to an 8 day service. If UGI were required
23 to call on the service the day before it was needed or in the case of weekends on Friday

1 for Saturday, Sunday and Monday, UGI would require a service for significantly more
2 than 8 days. In fact the current 6,500 dth peaking service was a 30 day service. Mr.
3 Mierzwa fails to give UGI credit for taking steps to lower the amount of assets needed.
4 Ultimately, UGI has designed a portfolio to minimize the amount of assets needed while
5 maintaining an appropriate level of flexibility and reliability to its obligations as supplier
6 of last resort.

7
8 Q. On page 14, lines 3-5, of his testimony, Mr. Mierzwa recommends that the amount of
9 capacity UGI acquires through its proposed RFP be reduced by 31,500 Dth/day for the
10 2012-2013 winter season, and by 41,400 Dth/day for the 2013-2014 winter season. Is
11 this a reasonable proposal?

12 A. No. This recommendation is based upon Mr. Mierzwa's belief that UGI is experiencing a
13 little or no growth in design day requirements and his design temperature
14 recommendations. For the reasons stated above, UGI does not believe that these
15 proposals are warranted, and thus UGI does not believe that it should be required to
16 reduce the volume of firm gas supplies it proposes to seek through its RFP process to
17 serve Core Market Customers.

18
19 Q. Does this conclude your testimony?

20 A. Yes.

EXHIBIT UGI-DCB-3

(NYMEX forward prices for natural gas and heating oil)

UGI Utilities, Inc. - Gas Division
 Docket No. R-2011-2238953

NYMEX Futures Prices

	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12
Heating Oil Price (\$/gallon)	\$ 3.11	\$ 3.12	\$ 3.13	\$ 3.15	\$ 3.17	\$ 3.18	\$ 3.18	\$ 3.18	\$ 3.15	\$ 3.14	\$ 3.11	\$ 3.10
Heating Oil Conversion to \$/Mmbtu	\$ 22.36	\$ 22.46	\$ 22.55	\$ 22.64	\$ 22.78	\$ 22.85	\$ 22.85	\$ 22.85	\$ 22.66	\$ 22.58	\$ 22.37	\$ 22.34
Natural Gas Price (\$/MMBtu)	\$ 4.50	\$ 4.48	\$ 4.49	\$ 4.60	\$ 4.79	\$ 4.89	\$ 4.89	\$ 4.84	\$ 4.75	\$ 4.78	\$ 4.80	\$ 4.85
Difference between Natural and Heating Oil	\$ 17.86	\$ 17.99	\$ 18.05	\$ 18.03	\$ 17.99	\$ 17.96	\$ 17.96	\$ 18.01	\$ 17.91	\$ 17.80	\$ 17.57	\$ 17.49

**Heating Oil and Natural Gas futures prices from Last trade, 7/15/2011 11:00 AM

EXHIBIT UGI-DCB-4

(Gas-Oil price comparison)



UGI Home Heating Savings Calculator

Estimated results from the UGI Home Heating Calculator for an Existing Home Comparison are as follow:

Summary of Results

Comparison	Converting from Oil	To Natural Gas	Savings with Natural Gas
Annual Costs	\$4,486.11	\$2,606.78	\$1,879.33
Annual Carbon (lbs)	38,382	25,338	13,044

Estimated Annual Cost Comparison

Appliance	Converting from Oil	To Natural Gas	Savings with Natural Gas
Heating	\$2,240.87	\$862.79	\$1,378.08
Water Heating *	\$719.51	\$316.74	\$402.77
Drying *	\$115.86	\$41.28	\$74.58
Cooking *	\$79.75	\$36.53	\$43.22
Cooling	\$360.87	\$277.59	\$83.28
Fan	\$68.78	\$68.78	\$0.00
Base Electric	\$795.47	\$795.47	\$0.00
Gas Customer Charges	\$0.00	\$102.60	-\$102.60
Electric Customer Charges	\$105.00	\$105.00	\$0.00
Total Home	\$4,486.11	\$2,606.78	\$1,879.33

* Fuel for water heating, drying, and cooking are natural gas in the natural gas home, propane in the propane home, and electric in all other homes.

Results based on natural gas and electric utility rates as of June 1, 2011.

Estimated Annual Carbon Comparison **

Appliance	Converting from Oil	To Natural Gas	Savings with Natural Gas
Heating	14,850	8,772	6,078
Water Heating	7,911	3,220	4,691
Drying	1,274	420	854
Cooking	877	371	506
Cooling	3,968	3,052	916
Fan	756	756	0
Base Electric	8,746	8,746	0
Total Home	38,382	25,338	13,044

** Carbon output based on Full-Fuel-Cycle

Existing Home Comparison Parameters

Step 1: Southern PA	UGI Gas	PPL
Step 2: 4 People	2,200 SF	Average Construction
Step 3: Standard Eff Heat (3 to 15 years old)	Standard Eff Heat (plan to install)	Tank (Standard) Eff Water Heater (2 to 7 years old)
Step 4: Oil (3 to 15 years old)	\$3.39 Per Gallon	Tank (Standard) Eff Water Heater (plan to install)
	662 Gallons	Natural Gas

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC
UTILITY COMMISSION, ET AL.

v.

UGI UTILITIES, INC. –
GAS DIVISION

:
:
:
:
:
:
:
:
:
:

Docket No. R-2011-2238953
C-2011-2243186
C-2011-2248211

REBUTTAL TESTIMONY
OF
SHAUN HART

UGI STATEMENT No. 3-R

Dated: July 25, 2011

2011 AUG 12 PM 12:59
REGISTRATION DIVISION

1 Q. Please state your name and address.

2 A. Shaun M. Hart; my business address is UGI Utilities, Inc., 2525 North 12th Street, Suite
3 360, Reading, Pennsylvania 19612.

4
5 Q. Are you the same Shaun M. Hart who previously submitted direct testimony in this
6 proceeding?

7 A. Yes.

8
9 Q. What is the purpose of your rebuttal testimony?

10 A. My rebuttal testimony will address the recommendations made in the direct testimony of
11 James L. Crist on behalf of CenterPoint Energy Services, Inc., Jerome H. Rhoads, Inc.
12 d/b/a Rhoads Energy Corporation, Shipley Energy Company and Shipley Choice LLC
13 (“Supplier Group”). In particular, I will focus on the five “primary” recommendations
14 set forth on pages 5-6 and 32-33 of Mr. Crist’s testimony.

15
16 Q. Before turning to the specifics, do you have any general comments about Mr. Crist’s
17 recommendations?

18 A. Yes. First, on pages 4 and 5 of his direct testimony, Mr. Crist clearly views the
19 mandatory direct assignment of capacity to Choice Suppliers as detrimental. Consistent
20 with this view, Mr. Crist suggests that UGI’s “capacity assignment program should be
21 voluntary[,]”. In addition, Mr. Crist suggests Choice Suppliers should be assigned less
22 than a proportional share of capacity acquired by UGI to serve the peak day requirements
23 of Choice customers under UGI’s statutory obligation to serve as the supplier-of-last-

1 resort (“SOLR”). As explained in more detail below, UGI believes that Mr. Crist’s
2 suggestions are contrary to the public policy decisions made by the Pennsylvania General
3 Assembly in the Natural Gas Choice and Competition Act to (1) place the SOLR
4 obligation with NGDCs (or in certain cases another Commission-approved entity), (2)
5 provide NGDCs the right, in their discretion, to directly assign capacity to prevent the
6 creation of stranded costs resulting from their SOLR obligations and (3) require retail
7 choice to be implemented in a way that does not unreasonably discriminate against one
8 customer class for the benefit of another. These statutory standards cannot be amended
9 by the Commission or revoked in the context of a PGC proceeding. As a result most of
10 Mr. Crist’s recommendations are more appropriately directed to the General Assembly
11 and not the Commission.

12 Second, Choice Suppliers were given a full opportunity to, and did, argue for the
13 adoption of certain of Mr. Crist’s recommendations in the context of the Commission’s
14 multi-year SEARCH investigation at Docket No. I-00040103F0002. The Commission
15 addressed these policy recommendations in its SEARCH-related rulemaking orders,
16 including its Final Rulemaking Order addressing the Promotion of Retail Markets at
17 Docket No. L-2008-2069114, entered on February 23, 2011, and recently recalled from
18 final regulatory review before the Independent Regulatory Review Commission to make
19 certain technical corrections. It seems singularly inappropriate to collaterally attack and
20 rehash regulatory issues in a PGC proceeding so recently decided in, and more
21 appropriately addressed in, a rulemaking proceeding.

22 Third, in attempting to establish new direct assignment rules in the last two UGI
23 PGC proceedings, marketer intervenors argued that substantial lead times were needed to

1 change direct assignment rules because retail marketers might be prejudiced by advance
2 gas supply purchase decisions and that time was needed to evaluate the effects of changes
3 in direct assignment rules on customer choice. For example, in UGI Utilities 2009 PGC
4 proceeding at Docket No. R-2009-2105911, RESA witness Orlando M. Magnani
5 testified:

6 Commencing UGI's proposed pipeline capacity release program in December
7 2009 does not provide natural gas suppliers with sufficient time to incorporate
8 UGI's WACOC onto current price structures. UGI has an active Choice program
9 and Third Party Suppliers have customers already under contract with pricing in
10 place that reflects the way UGI currently does business. Forcing Third Party
11 Marketers to attempt to renegotiate contracts or pay for the higher costs
12 themselves creates an undue cost burden and has the potential to stifle
13 competition by creating the image that contracts with Third Party marketers are
14 not reliable.

15 RESA Stmt. No. 1, p. 4.

16 In UGI's 2010 PGC proceeding at Docket No. R-2010-2172933, in turn, Shipley Energy
17 Company witness James L. Crist recommended that "[t]he asset release program should
18 be voluntary to allow NGSs to evaluate the costs and make decisions that will benefit
19 their customers[,]” and that “[t]he program should be considered a pilot for the first year
20 so that changes and improvements can be made based on actual experience.” Shipley
21 Stmt. No. 1, p. 7.

22 In response to these concerns, in last year's UGI PGC proceeding, a multi-year
23 phase-in period was agreed to in the context of an overall PGC settlement, with UGI also

1 agreeing to report retail choice levels over a multi-year period so that the effects of direct
2 assignment could be evaluated. The settlement also provided:

3 If, on or before October 31, 2013, the total design peak day Choice demand
4 served by Choice Suppliers on the Company system drops to a level less than
5 90% of the highest total design peak day demand experienced in the previous
6 three years, or the total number of Choice customers served by Choice Suppliers
7 on the Company's system drops to a level less than 90% of the highest total
8 customer account experienced in the previous three years, any Choice Supplier
9 shall have the right to file a complaint to show why the Company's capacity
10 assignment rules have resulted in the drop and to propose changes to be
11 considered by all interested parties.

12 The Supplier Group contains two Shipley entities, and I believe it is plainly unfair for
13 these entities to attack, in this year's PGC proceeding, a Commission-approved PGC
14 settlement from just one year ago which provided for a multi-year phase-in period and
15 which included the standards, quoted above, for judging when future challenges to the
16 direct assignment rules could potentially be raised [on or after October 31, 2013].
17 Repetitive challenges to the Company's capacity assignment rules should not be
18 considered because these challenges prevent the Company from establishing stable direct
19 assignment rules that would: (1) enable Choice Suppliers to make informed advance gas
20 supply purchases and make competitive offers to their customers, and (2) permit UGI to
21 make commitments related to supportive systems, required administrative personnel and
22 NGS communication and education efforts.

1 Fourth, while all Pennsylvania NGDCs may be subject to the same legal
2 standards, their gas supply options and Choice program designs may be significantly
3 different, making selective comparisons among NGDCs, such as those set forth in Mr.
4 Crist's testimony, misleading. It is very important to recognize that all NGDCs are not
5 alike and each NGDC must ensure system reliability based upon the NGDC's individual
6 circumstances. NGDCs located in the western part of the state have many different
7 sources of gas to use in a critical supply situation that are unavailable to NGDCs in the
8 eastern or central part of the state. For example, UGI has no on-system storage or gas
9 production and is located in a market area where alternative upstream assets are not
10 readily available on short notice during times of peak demand. This stands in direct
11 contrast to many NGDCs in the western part of Pennsylvania that have entirely different
12 gas supply structures, such as on-system production and readily available alternative
13 upstream assets. Under these circumstances, certain western NGDCs are able to assure
14 reliability with different, less restrictive, rules, such as capacity assignment programs that
15 allow for direct assignment of storage. This is not the case for UGI, given its location in
16 the state.

17 Also, some NGDCs have Choice program designs where marketers make ratable
18 deliveries, and the NGDC holds many more assets to provide for swings in demand while
19 recovering associated costs from Choice Suppliers through higher balancing fees. UGI,
20 however, has a program design where marketers are responsible for handling more of the
21 swings in their customers' loads while UGI provides a more modest and lower-cost
22 balancing service. Importantly, UGI designed this program, in part, to provide more
23 options and more flexibility to Choice Suppliers so that they can manage more of the

1 variations in their customer's supply requirements in the manner they think is best, rather
2 than relying on UGI to provide such balancing services in the manner it sees fit and
3 charging Choice Suppliers for associated costs. Changing UGI's program to impose
4 higher balancing costs on Choice Suppliers could be highly disruptive and have an
5 adverse affect on other suppliers who have relied on UGI's program to make their supply
6 acquisition decisions and to structure their competitive offers to customers. In this
7 regard, I would note that a number of marketers on UGI's and its affiliated NGDC's
8 systems have not intervened in this proceeding, and it therefore is not known what impact
9 such changes would have on those marketers and whether or not they would support such
10 changes to a program just recently approved by the Commission in UGI's and its
11 affiliated NGDC's last PGC proceedings.

12 Finally, Mr. Crist focuses his testimony almost entirely on potential competitive
13 impacts associated with UGI's capacity assignment program. This is an important
14 consideration but not the only factor to be considered. Competitive impacts must be
15 balanced with UGI's overarching statutory duty to provide reliable service to all retail
16 customers, particularly in the event that a natural gas supplier does not fulfill its
17 contractual obligation to serve its customers. Moreover, it must be ensured that capacity
18 assignment provisions do not violate prohibitions against unreasonably shifting costs to
19 PGC customers that should be borne by suppliers and their customers. Many of Mr.
20 Crist's proposals, explained below, fail to adequately consider these important issues.

21 22 **SUPPLIER GROUP'S RECOMMENDATION I**

23 Q. What is Mr. Crist's first primary recommendation?

1 A. Mr. Crist's first recommendation is that "Capacity assigned to Choice Suppliers should
2 include all interstate pipeline transportation *and* storage capacity that was procured to
3 serve a Choice Supplier's customers."

4
5 Q. Do you agree with this recommendation?

6 A. No. The reasons why the pro rata release of all assets is not appropriate were fully
7 addressed in last year's PGC proceeding in which Mr. Crist presented testimony, but to
8 the extent this issue is to be revisited in this proceeding, the pro rata release of all gas
9 supply assets is not appropriate because: (1) certain so-called Section 7(c) contracts,
10 including 7(c) storage contracts, and certain peaking contracts contained in UGI's supply
11 portfolio, cannot be released under FERC rules; (2) there is no current mechanism for
12 ensuring that released storage capacity, once recalled, will have sufficient gas inventory
13 or available gas inventory needed for UGI to meet its SOLR obligations and provide
14 reliable service to customers; (3) releasing certain levels of storage capacity would
15 require a fundamental redesign of UGI's Choice program and impose new obligations
16 and/or costs on Choice Suppliers that they may not want to assume and may be highly
17 disruptive to their acquisition plans and competitive rate offerings to customers; and (4)
18 the pro rata release of UGI gas supply assets would be administratively burdensome on
19 Choice suppliers as well as UGI.

20
21 Section 7(c) and Peaking Contracts

22 Q. What are Section 7(c) contracts and why can they not be released to Choice Suppliers?

1 A. Prior to the initiation of open access under FERC's Part 157 regulations, all supply
2 contracts were non-open access contracts under Section 7(c) and could not be released.
3 Over time, as open access grew, more contracts became open access Part 157 contracts,
4 and at the time of the restructuring of the interstate pipeline industry in the 1990s under
5 FERC Order 636, FERC required all Section 7(c) contracts to be identified since they
6 were exempted from the recovery of restructuring costs. In his testimony, Mr. Crist
7 generalizes for the eastern Pennsylvania region by saying, "of course, the reality [is] that
8 most FERC-jurisdictional storage contracts held by companies today are contracts that
9 can be released." In fact, on the UGI Penn Natural Gas, Inc. ("PNG") system, such 7(c)
10 contracts account for sixty-five percent (65%) of storage deliverability on peak day. UGI
11 does not consider the remaining thirty-five percent (35%) to represent "most" of their
12 contracts "that can be released." Therefore, Mr. Crist's statement is not correct. In
13 actuality, most if not all storage capacity contracts offered by Transco in the Northeast
14 market area are operated under Section 7(c) contracts to which there are no Transco open
15 access alternatives. Transco is one of the largest interstate pipelines serving eastern
16 Pennsylvania as well as New Jersey, New York City, Baltimore, and Washington D.C.,
17 and Transco offers more than 114 billion cubic feet of storage capacity under Section 7(c)
18 contracts, which comprises more than 55% of Transco's total storage capacity in the
19 United States.

20
21 Q. Does Mr. Crist address the problem of unassignable Section 7(c) contracts?

22 A. On lines 1 and 2 of page 14 of his testimony, Mr. Crist states: "I am unaware of any
23 Company Section 7(c) transportation arrangements." Mr. Crist fails to acknowledge that

1 UGI NGDCs have the following Section 7(c) contracts: Transco GSS, Transco SS-2,
2 Transco LGA, Transco LSS, Texas Eastern FTS-5, and Texas Eastern FTS-7. Mr. Crist
3 then goes on to suggest that to the extent UGI has such contracts “the Company could
4 assign an appropriate portion of the capacity from assignable agreements, while retaining
5 the capacity from non-assignable agreements.” Supplier Stmt. 1, p. 14, lines 9-11.

6
7 Q. What is your reaction to Mr. Crist’s suggestion that UGI simply release assignable
8 contracts for now?

9 A. First, as I explain in more detail below, there are other important reasons, including
10 system reliability, why even assignable storage contracts should not be assigned. Second,
11 Mr. Crist’s suggestion would add substantial complexity to UGI’s capacity release
12 program for relatively little benefit, given the limited availability of non-Section 7(c)
13 contracts and the option for suppliers to purchase gas at summer prices for winter
14 delivery. UGI believes it would be administratively difficult to manage such a contingent
15 Choice capacity release program and to establish rules now that would not have
16 unintended consequences in the future. For example, a situation could arise where there
17 were adequate assignable storage contracts to permit pro rata assignment at the beginning
18 of a winter heating season, i.e., the combined Choice loads could all receive a
19 proportional share of assignable storage assets at the beginning of the winter season, but
20 increased load during the winter season outstripped the available assignable storage
21 capacity. At that point, direct assignment rules would have to change which could be
22 highly disruptive for Choice suppliers, their supply planning and the rates offered to their
23 customers. There is also a benefit to both Choice Suppliers and the UGI NGDCs from

1 having uniform Choice rules, to the extent possible, implemented across the UGI
2 NGDCs. In addition, the amount of Section 7(c) capacity varies among the UGI NGDCs.

3
4 Q. Does Mr. Crist provide any other recommendations as to how to address Section 7(c)
5 capacity?

6 A. Yes. On lines 15 through 17 of page 14 of his testimony, Mr. Crist suggests, "it is
7 possible that assignment of Section 7(c) contracts could be achievable by working with
8 the relevant pipeline, with the possible need for FERC approval of any arrangement."

9
10 Q. Is this a viable possibility?

11 A. I am not exactly sure what Mr. Crist is suggesting. However, UGI is specifically aware
12 that this option does not exist for Transco through prior communications with Transco.
13 On other pipelines, there can often be a cost to convert Section 7(c) contracts, which
14 would result in higher demand costs for UGI and, as a result, higher demand costs for the
15 PGC and for marketers who might receive such future assignment of capacity.
16 Moreover, I have been advised by counsel that FERC has not been sympathetic to
17 proposals by pipelines to re-characterize Section 7(c) contracts as Part 284 contracts that
18 may be released, since the Section 7(c) designation conferred an exemption from
19 transition cost responsibility.

20
21 Q. What are peaking contracts and why can they not be released to Choice Suppliers?

1 A. In accordance with its least cost obligations, UGI has obtained certain peaking services to
2 meet the peak day needs of its core market customers, including Choice customers.
3 However, these contracts are not releasable to third parties.

4
5 Q. Does Mr. Crist address the problem of unassignable peaking contracts?

6 A. Yes. Mr. Crist recommends that the cost of unassignable peaking contracts be “excluded
7 from the capacity assignment program.”

8
9 Q. Is this a viable possibility?

10 A. No. UGI’s peaking services are obtained to meet the peak day needs of its core market
11 customers, including Choice customers. Therefore, the costs should be included in the
12 Choice program.

13
14 Reliability of Supply

15 Q. Is there another reason why you disagree with Mr. Crist’s recommendation that storage
16 contracts be released to Choice Suppliers?

17 A. Yes. UGI does not believe that significant storage capacity could be released in a way
18 that would ensure that UGI could still meet its SOLR obligations and continue to provide
19 reliable service to customers.

20
21 Q. On lines 9 through 13 of page 11 of his testimony, Mr. Crist states that storage capacity
22 can be recalled in the same manner that interstate pipeline capacity can be recalled. Do
23 you agree with this statement?

1 A. Yes. However, Mr. Crist focuses on storage capacity and does not address storage gas
2 inventory, which is essential for UGI to meet its SOLR obligation and provide reliable
3 service to customers. If a Choice Supplier defaults, FERC rules permit the storage
4 capacity to be recalled, but there is no FERC mechanism in place to ensure that the
5 recalled storage capacity will have sufficient gas inventories or that UGI will have access
6 to this gas supply which may be needed for UGI to fulfill its SOLR obligations and
7 provide reliable service to core market customers.

8
9 Q. Why is storage gas inventory needed to fulfill UGI's SOLR obligations?

10 A. Exhibit UGI-DCB-2, page 2 of 4, of UGI's June 1, 2011 Book 2 filing shows the load
11 duration curve for UGI's core market supplies. It clearly shows the important role
12 storage plays in meeting a significant part of UGI's SOLR load obligations. For storage
13 to play this important role it needs to be filled in the summer period, and certain storage
14 inventory levels must be maintained through the winter period so that gas is available to
15 meet peak demands that occur late in the winter. However, there is no regulatory
16 mechanism to ensure that (1) the party receiving the assignment of storage capacity will
17 maintain gas inventory levels at the required levels to fulfill UGI's SOLR obligations in
18 the event the storage capacity is recalled, or (2) even if such gas inventories are present,
19 that the ownership of the then existing gas inventories can or will be transferred to UGI
20 upon recall of the underlying storage capacity. While UGI could enter into a contract
21 obligating the party to whom capacity has been released to maintain and transfer
22 ownership of storage inventories to UGI in the event of a recall of that storage capacity,

1 the party could simply breach the contract, leaving UGI with a contractual claim but no
2 gas supplies to meet the loads of returning core market customers.

3
4 Q. On lines 15 through 17 of page 13 of Mr. Crist's testimony, Mr. Crist downplays the
5 importance of UGI not being able to meet its supply obligations due to the "small
6 chance" of a supplier default. How do you respond to this statement?

7 A. As a SOLR, UGI cannot jeopardize the reliability of firm deliverability of its storage
8 assets. Storage is essential to meet system needs and maintain service to essential human
9 needs customers throughout the winter heating season and should not be released if
10 reliability obligations cannot be maintained. UGI is the supplier of last resort and, with
11 all due respect, cannot rely on the unsupported and summary conclusion of Mr. Crist that
12 the risk of supplier default is small. In fact, there have been several instances in
13 Pennsylvania and other states where retail marketers have, for example, become bankrupt
14 or insolvent. Moreover, the risks do not just extend to bankruptcy or insolvency. A
15 marketer could, for example, simply decide to exit the retail market and could make the
16 decision to run down its storage inventory levels rather than buying new supplies before
17 its exit. Even if a marketer exited the market or defaulted and there was sufficient
18 inventory in storage, it is not clear that UGI could force the marketer to transfer such
19 inventories to UGI in a timely manner. This is particularly true in the event of a
20 bankruptcy, where such inventories are owned by the Choice supplier at the time of
21 bankruptcy filing and could be considered part of the bankruptcy estate and therefore not
22 available to UGI.

23

1 Q. If these events were to occur, couldn't UGI simply purchase alternate supplies in the
2 market place to replace the unavailable storage supplies?

3 A. While alternate supplies at some price might be available during warmer periods, there is
4 no guarantee that such supplies would be available during colder periods in the market
5 area in which UGI is located; and it is during colder periods where such default events
6 are most likely to occur. Unlike many western Pennsylvania NGDCs, UGI does not have
7 on-system storage or production that could be readily relied upon to meet winter peak
8 demands. UGI is also not in an area where there is unsubscribed pipeline capacity and,
9 therefore, UGI could not ensure deliverability on the coldest day. Accordingly, there is
10 no reasonable certainty of alternate supply that could meet UGI's reliability needs as
11 SOLR.

12
13 Q. On page 9, lines 7-13, Mr. Crist notes that Choice customer loads are greater in the
14 winter, and on page 9, lines 16-22, states that Choice Suppliers:

15 Must either purchase city-gate deliveries from a wholesale supplier or obtain
16 sufficient pipeline capacity to meet the peak needs of their customers, since the
17 Company does not release storage to the NGSs. Not having access to the storage
18 assets that were paid for by all customers puts the NGSs at a disadvantage when
19 competing against the utility's system supply gas and reduces the ability of
20 customers to choose an NGS, forcing them to stay with the utility

21 Is this argument valid?

22 A. No. As explained above, the primary use of storage capacity is to serve higher winter
23 demands. Storage is filled in the late spring or summer typically at lower prices and then

1 withdrawn to serve winter peak demands. Under UGI's capacity assignment rules agreed
2 to in last's year's PGC settlement, Choice Suppliers have the option of receiving bundled
3 city gate sales from UGI in the winter at transparent summer index prices for significant
4 portions of their load. Thus, they are not forced to purchase city-gate deliveries or
5 pipeline capacity to meet the seasonal needs of their customers and have the option of
6 receiving services supported by UGI's storage and peaking assets for which they are
7 paying a proportionate share. They are accordingly not at a competitive disadvantage to
8 PGC service and are essentially receiving the economic equivalent of storage service for
9 their customers.

10
11 Q. On pages 27 through 30 of his testimony, Mr. Crist cites the Choice programs of
12 Columbia Gas, Equitable Gas, National Fuel Gas, Peoples Natural Gas, and PECO as
13 having capacity assignment provisions "superior" to UGI's Choice program, and briefly
14 reviews each program. What is your reaction to this analysis?

15 A. First, I do not think the capacity assignment decisions of other companies are of any
16 particular relevance since there are so many unknowns as to how those decisions were
17 arrived at or whether they are the correct decisions. In a sense, the only relevant question
18 is whether UGI's rules are consistent with its statutory obligations given its unique
19 circumstances. Having said that, I would note that the Equitable Gas, National Fuel Gas,
20 and Peoples Natural Gas rules are particularly inapposite because they have significant
21 operations in the western part of Pennsylvania and some or all have significant on-system
22 production and storage. These characteristics mean that the consequences of a marketer
23 default are far less serious than they would be for UGI.

1 Q. Can you elaborate on how a difference in geography makes the structure of the Choice
2 programs of Equitable Gas, National Fuel Gas, and Peoples Natural Gas inapposite to
3 UGI's Choice program structure?

4 A. Unlike western Pennsylvania, there is limited availability of gas supply in eastern
5 Pennsylvania during peak day conditions. Interstate pipeline capacity is fully subscribed
6 to eastern Pennsylvania market area delivery points, including but not limited to Transco
7 Zone 6 Non-NY, Texas Eastern M-3, Columbia Market Areas 23 and 25, and Tennessee
8 Zone 4. Last winter, customers of Texas Eastern experienced restrictions at Texas
9 Eastern's Entriiken, Pennsylvania and Bernville, Pennsylvania compressor stations.
10 Copies of Texas Eastern's notices notifying its customers of these restrictions are
11 attached as Exhibit UGI-SMH-R1. The third sentence of the third-to-last paragraph
12 states, "in accordance with FERC policy and the Texas Eastern FERC Gas Tariff, once
13 timely nominations have been scheduled for a given day, primary firm cannot bump
14 secondary firm nominations." This means that even if a company holds primary firm
15 capacity through the restricted compressor stations, Texas Eastern will not allow gas to
16 flow through the stations if nominations are submitted after the timely cycle, thus
17 reducing available supply to markets downstream of these compressor stations.

18
19 Q. Have there been similar critical notices issued by other interstate pipelines in the recent
20 past with respect to the difference in geography between western Pennsylvania and
21 eastern Pennsylvania?

22 A. Yes. Columbia Gas Transmission has issued Master List of Interconnections ("MLI")
23 restrictions as recently as 2010, restricting deliveries to eastern market areas, including

1 eastern Pennsylvania. Columbia's MLI restriction, which is attached as Exhibit UGI-
2 SMH-R2, required shippers to schedule gas to their firm contract's primary delivery
3 meter within specified eastern market areas. Scheduled delivery to any other meter, even
4 if the meter was located in the same market area as the contract's primary meter, was
5 forbidden. As shown on Columbia Gas Transmission's system map, which is attached as
6 Exhibit UGI-SMH-R3, the restricted market areas are all located in eastern Pennsylvania,
7 New Jersey, New York, Maryland, and Virginia. The market areas located in western
8 Pennsylvania were not included in the restriction.

9
10 Q. Does Mr. Crist elsewhere in his testimony acknowledge that Equitable Gas, National Fuel
11 Gas, and Peoples Natural Gas are not similarly situated geographically as UGI's service
12 territory?

13 A. Yes. In his testimony on page 29, lines 21 through 23, and page 30, lines 1 and 2, Mr.
14 Crist states that Columbia and PECO "serve areas in the central and eastern part of the
15 Commonwealth." He continues by saying, "I make this observation because they are
16 similarly situated geographically with the service territory of the Company." This
17 acknowledgement further demonstrates that Mr. Crist's reliance on and citation to
18 western Pennsylvania capacity assignment programs is not appropriate and does not
19 support his position in this proceeding.

20
21 Q. Since Columbia and PECO are similarly situated geographically as UGI, what is your
22 response to Mr. Crist's statements that the Choice programs on Columbia and PECO are
23 "superior" to UGI's Choice program?

1 A. It is telling that the choice programs of Columbia and PECO, as well as the unmentioned
2 program of the Philadelphia Gas Works ("PGW"), do not provide for the release of
3 storage capacity, thereby refuting Mr. Crist's central argument. PECO and PGW, of
4 course, are located in the eastern part of Pennsylvania where UGI is located, and
5 Columbia also has some service territories in the eastern part of the Commonwealth. In
6 lieu of releasing storage capacity, PGW charges its Choice Suppliers a Supplier Storage
7 and Peaking Charge to recover costs of using storage and peaking facilities. Similarly,
8 PECO charges its Choice customers a Balancing Service Charge to recover fixed and
9 variable storage costs. PECO's Balancing Service Charge is currently equal to \$0.4704
10 per Mcf compared to UGI's current Balancing Fee of \$0.0596 per Mcf. Under
11 Columbia's program, Columbia similarly retains storage and other assets and utilizes the
12 retained assets to provide balancing services for Choice Suppliers which are paid for by
13 Choice customers.

14
15 Q. How then is UGI's capacity program similar to those of other NGDCs in the eastern part
16 of Pennsylvania?

17 A. The eastern NGDC capacity release programs are similar to UGI's because they do not
18 release storage capacity. Other eastern NGDCs retain storage assets and use them in part
19 to provide balancing services to Choice Suppliers which Choice customers must pay for,
20 presumably to prevent cross-subsidization. UGI similarly retains storage assets, but
21 instead of also using them to provide the same degree of balancing service to Choice
22 Suppliers, uses those assets, in part, to make bundled city gate sales at summer index
23 prices to marketers electing to receive the service so that they can balance their own

1 seasonal loads and experience the benefits of seasonal price variations. Thus, there is no
2 obvious substantive difference in how storage is used to serve Choice Suppliers between
3 UGI's program and that of other eastern NGDCs, and certainly there is no support in
4 these program designs for the release of storage assets to Choice Suppliers.

5 Mr. Crist stresses the importance of the pricing benefits of storage on pages 8
6 through 10 of his testimony to achieve a lower overall gas cost. UGI agrees with Mr.
7 Crist about the importance of being able to purchase more gas at summer prices than
8 winter prices, which is why UGI offers Choice Suppliers with the option of purchasing
9 gas at summer prices for winter delivery. However, Mr. Crist fails to acknowledge that
10 UGI offers this option by inaccurately claiming on line 3 of page 9 of his testimony that
11 UGI "deprives" Choice Suppliers from the benefits of storage. Mr. Crist continues to
12 state that storage capacity should be included in the Choice program on page 10, lines 1
13 through 23, and page 11, lines 1 through 3, but the seasonal benefit of storage is already
14 available to Choice suppliers under the bundled city gate sales options offered by UGI.

15
16 Q. On page 12, lines 13 through 15, of his testimony, Mr. Crist interprets UGI's response to
17 interrogatory CES-I-3, which is included in Mr. Crist's testimony as Exhibit SG-2, as
18 saying that storage assets and peaking assets are not released because they are being used
19 to support the Choice program. Is this an accurate interpretation of UGI's response?

20 A. No. UGI's response states that storage and peaking assets are used to provide the benefit
21 of summer storage pricing in the winter for Choice Suppliers, but UGI did not say the
22 reason they are not released is because they are being used in this manner. The reason

1 these assets are not released is due to UGI's reliability concerns, FERC rules about
2 Section 7(c) contracts, and peaking contracts not being releasable, as noted above.

3
4 Choice Program Design

5 Q. Would Mr. Crist's recommendation that storage contracts be released to Choice Suppliers
6 potentially require a redesign of UGI's choice program?

7 A. Yes. Unlike the Choice program of say, PECO, where Choice Suppliers deliver a fixed
8 quantity each day and PECO retains storage and other assets to handle all variations in
9 Choice loads, UGI designed its program to require Choice Suppliers to deliver a variable
10 Daily Delivery Requirement ("DDR") that varies based on anticipated load. There can be
11 variations between the specified DDR and actual usage, however, and UGI utilizes no-
12 notice storage capacity to balance such variations as well as other system balancing
13 requirements. If UGI were to release these no-notice storage contracts to Choice
14 Suppliers, UGI would need to redesign the Choice program in order to meet the
15 balancing needs of the system which would place additional burdens and costs on Choice
16 Suppliers. Mr. Crist points out the benefits, but ignores the potential additional burdens
17 of alternative programs.

18
19 Q. What burden would be placed on Choice Suppliers with respect to balancing?

20 A. Choice Suppliers might be required to be available 24 hours per day on every day of the
21 year, including weekends and holidays, to submit nomination changes when they are
22 necessary for balancing needs. A sufficient amount of capacity would need to be
23 reserved on a daily basis to meet the potential balancing needs.

1

2

Pro Rata Releases

3 Q. What would be the impact of adopting Mr. Crist's recommendation that all transportation
4 and storage assets in the PGC portfolio be released to Choice Suppliers?

5 A. Because UGI has a significantly larger portfolio of gas supply assets than many NGDCs,
6 releasing all transportation and storage assets (or at least those that could be released
7 under FERC rules) would create administrative burdens for both UGI and Choice
8 Suppliers, who would have to receive and manage many releases, and would effectively
9 lead to a de facto pro rata assignment system. In the Commission's SEARCH process,
10 minimizing the number of releases was viewed as a positive by marketer, NGDC and
11 Commission staff representatives, and under FERC Order 712, FERC rules were
12 modified for state approved retail access programs to facilitate fewer releases at prices
13 that would avoid cost shifting between PGC and Choice customers. Releasing a subset of
14 all interstate pipeline transportation contracts simplifies the capacity release program.
15 Releasing all interstate pipeline transportation contracts would add an unnecessary
16 amount of complication to the program for both UGI and Choice Suppliers. Ultimately
17 UGI's Choice program provides reliability, complies with FERC rules, allocates
18 appropriate costs to Choice customers, provides marketers with the benefits of the
19 summer/winter storage spread, and limits the need for greater administrative costs and
20 duplication of around the clock operations.

21

22

SUPPLIER GROUP'S RECOMMENDATION II

23 Q. What is Mr. Crist's second primary recommendation?

1 A. Mr. Crist's Recommendation II is that: "The price charged for assigned capacity should
2 be derived from the actual contract rate for the assigned capacity; not a weighted average
3 cost of all capacity that the Company has acquired which includes capacity that has no
4 connection to a natural gas supplier's customers."

5
6 Q. Do you agree with this recommendation?

7 A. No. Under the provisions of 66 Pa. C.S. §2203(5), gas restructuring is to be implemented
8 in a manner "that does not unreasonably discriminate against one customer class for the
9 benefit of another." The provisions of 66 Pa. C.S. §2204, in turn, provide that releases of
10 pipeline capacity or Pennsylvania gas supplies are to be at "the applicable contract rate
11 for such capacity or Pennsylvania supply and shall be subject to applicable contractual
12 arrangements and tariffs." At the time Section 2204 was enacted, FERC had maximum
13 release rate ceilings in place under which capacity could not be released at a rate that
14 exceeded the maximum contract rate. Since PGC portfolios are made up of assets having
15 varying price levels, releasing certain assets to Choice Suppliers at maximum contract
16 rates would inevitably lead to cost shifting, either to or from Choice Suppliers and their
17 customers. Thus, it was assumed that releases of capacity at FERC maximum contract
18 rates could only be performed without undue cost shifting if releases of all assets were
19 performed on a pro rata basis. In a series of orders issued in 2008 ("FERC Order 712"),
20 however, FERC removed the price cap on capacity releases of one year or less, and
21 exempted releases performed in the context of state-approved customer choice programs
22 from FERC bidding and tying restrictions. This recognized the need to facilitate state
23 retail choice programs by providing a means of releasing a manageable number of

1 contracts at a specified rate that would avoid cost shifting. Releasing contracts at the
2 weighted average cost of PGC assets is consistent with this policy and the requirements
3 of 66 Pa. C.S. §2203(5).

4
5 Q. Did the Commission agree with this approach to pricing released assets in its SEARCH
6 Final Rulemaking Order at Docket No.L-2208-2069114?

7 A. Yes. There the Commission stated:

8 We want to ensure that useable capacity is released to marketers at fair and
9 equitable rates, not the most expensive and least usable capacity. However, we
10 want to ensure that such capacity release is priced at a rate so that shopping and
11 non-shopping customers are treated equally and that NGDCs have the flexibility
12 to meet this goal based upon their respective capacity portfolios. For example,
13 NFG proposed that, when capacity is released, it have the flexibility to price the
14 capacity at a rate equal to its weighted average cost of capacity, whether or not the
15 capacity contract rate is higher or lower than the release rate. As explained in its
16 comments, “releases at the weighted average cost of capacity are the most
17 practical means to ensure that shopping and non-shopping customers are treated
18 equally.” NFG ANOFR Comments at 13-14. The Commission agrees with this
19 concept and believes that it should be incorporated in the final-form regulation.
20 Accordingly, the Commission will insert the words “based upon” within section
21 62.225(a)(3) so that it gives flexibility to the regulation while still requiring that
22 the method selected by the NGDC be founded upon the applicable contract rate.

23 Id. at p. 43.

24
25 Q. Does the release of capacity at the weighted average cost of PGC assets hinder Choice
26 Supplier’s ability to compete with PGC rates?

1 A. No. Virtually all PGC customers pay a PGC rate comprised of the weighted average cost
2 of all PGC assets, and not just the assets used to serve each particular PGC customer.
3 Releasing specific assets to Choice Suppliers at weighted average cost accordingly does
4 not place them at a competitive disadvantage to the PGC.

5
6 Q. On pages 16-17 of his testimony, Mr. Crist suggests that UGI does not have the ability to
7 release capacity under the provisions of 66 Pa.C.S. §2204(e) because “UGI has not
8 engaged in a collaborative process to address capacity requirements” and “should have
9 offered capacity to suppliers.” Is there any merit to this argument?

10 A. No. UGI has routinely conducted capacity collaboratives where it has identified expiring
11 contracts, and such contracts are further identified in UGI’s annual PGC filings.
12 Members of the Supplier Group have participated in such collaborative meetings and
13 were free to attempt to acquire expiring UGI contracts or to offer alternative gas supply
14 arrangements to UGI. I would also note that the obligation to offer such contracts is
15 subject to “the service obligations imposed by this title, and to the extent such capacity is
16 not needed to meet the natural gas distribution company’s least-cost fuel procurement and
17 other applicable standards pursuant to this title....” All of UGI’s current PGC assets fall
18 within this exemption.

19
20 Q. Is there another reason you disagree with Mr. Crist’s second recommendation?

21 A. As part of UGI’s 2010 PGC Settlement at Docket No. R-2010-2172933, all parties agreed
22 to the terms of the capacity release to Choice Suppliers using UGI’s weighted average
23 cost of capacity.

1

2

SUPPLIER GROUP'S RECOMMENDATION III

3 Q. What is Mr. Crist's Recommendation III?

4 A. Mr. Crist's Recommendation III states: "The derivation of the capacity assigned to a
5 natural gas supplier should be based on the average day in the month of highest usage on
6 the Company's system, as it is today in some parts of the current UGI tariff. An NGS's
7 capacity assignment should then equate to its proportional share of the actual capacity
8 UGI has under contract so that UGI does not over or under allocate its actual capacity."
9

10 Q. Do you agree with this recommendation?

11 A. No. Since UGI must acquire capacity to meet the peak day requirements of its core
12 market customers, releasing capacity based on average day requirements effectively
13 results in a cross-subsidy from PGC customers to Choice customers in contravention of
14 statutory standards. Nonetheless, in the context of an overall PGC settlement in last
15 year's PGC, UGI has offered transition options where capacity is released based on
16 average day requirements, as well as peak day options. This approach, however, clearly
17 should not be part of an ongoing capacity assignment program.
18

19 Q. Is there evidence to suggest that marketers may not prefer capacity to be released based
20 on an average January day over capacity release based on peak day?

21 A. Yes. For the annual period beginning November 1, 2011, four of the eight Choice
22 Suppliers across UGI's and PNG's systems have selected capacity release based on peak
23 day. UGI has communicated the program to its suppliers and suppliers have relied on

1 these representations in their supply acquisition planning and in developing specific
2 offers to existing and prospective customers. Suppliers must find value in UGI's longer
3 term Choice capacity release program, which ultimately transitions to capacity release
4 based on peak day, because they are choosing the option for capacity release based on
5 peak day today. Since the program has been in place since last year's settlement, it
6 would place an unnecessary burden on suppliers who have already entered into contracts
7 with customers to have to re-adjust to a new set of rules at the whim of a few suppliers.
8 Therefore, rather than coming to a new set of terms year after year, the terms of the 2010
9 PGC Settlement, to which all parties agreed last year, should be maintained.

10
11 Q. Does Mr. Crist's Recommendation III comply with the Commission's recent Competitive
12 Markets Order that is defined on lines 11 through 15 of page 18 of Mr. Crist's testimony?

13 A. No. It does not. Lines 22 through 25 of page 20 of Mr. Crist's testimony quotes the
14 relevant provisions of 66 Pa.C.S. § 2204, which provides, "The amount released,
15 assigned or transferred shall be sufficient to serve the level of the customers'
16 requirements for which the NGDC has procured the capacity determined in accordance
17 with the NGDC's tariff or procedures approved in its restructuring proceedings." Mr.
18 Crist's recommendation would violate these requirements, because a capacity release
19 based on the average day in the month of highest usage on the Company's system is not
20 sufficient to serve the level of the Choice customers' requirements for which UGI has
21 procured the capacity.

22
23 Q. Is there another reason you disagree with Mr. Crist's third recommendation?

1 A. Yes. As part of UGI's 2010 PGC Settlement at Docket No. R-2010-2172933, all parties
2 agreed to the terms of the Choice capacity release schedule, for which there is a transition
3 to full mandatory assignment.

4

5 **SUPPLIER GROUP'S RECOMMENDATION IV**

6 Q. What is Mr. Crist's fourth recommendation?

7 A. Mr. Crist's Recommendation IV states: "The Company's capacity assignment program
8 should be voluntary."

9

10 Q. Do you agree with this recommendation?

11 A. No. This option would result in undue cost shifting between classes.

12

13 Q. Is this recommendation fair to PGC customers?

14 A. No. Mr. Crist is asking for the best of both worlds for Choice Suppliers to the detriment
15 of PGC customers. UGI's capacity portfolio and hedge plan are relatively stable
16 compared to the volatility of the natural gas market. Mr. Crist's recommendation is, in
17 effect, asking for the ability to pick and choose when to accept capacity releases based on
18 market conditions. When the market is lower than UGI's capacity costs, Mr. Crist
19 recommends that Choice Suppliers be able to rely on the market for their supply and that
20 PGC customers be charged for all supply costs. On the other hand, when the market is at
21 a premium to UGI's capacity costs, Mr. Crist recommends that Choice Supplier be
22 permitted to take the capacity away from PGC. This ability to flip back and forth would
23 put the PGC customers at risk for increased costs. Ultimately Mr. Crist is asking that the

1 Commission approve a “heads we win, tails you lose” program in which Choice
2 Suppliers always win and PGC customers always lose.

3
4 Q. Is there another reason you disagree with Mr. Crist’s Recommendation IV?

5 A. Yes. As part of UGI’s 2010 PGC Settlement at Docket No. R-2010-2172933, all parties
6 agreed to the terms of the Choice capacity release schedule, which states that for the
7 annual period beginning November 1, 2011 and each annual period effective November 1
8 thereafter, capacity release would be mandatory.

9
10 **SUPPLIER GROUP’S RECOMMENDATION V**

11 Q. What is Mr. Crist’s fifth recommendation?

12 A. Mr. Crist’s fifth recommendation is that “The 75% customer share of off-system sales
13 revenues should be credited to both PGC customers (including applicable firm
14 transportation customers) and Choice customers.”

15
16 Q. Do you agree with this recommendation?

17 A. No. Choice Suppliers are able to maximize the value of the assets released to them by
18 UGI in secondary markets and keep all of the revenues derived from such activities and
19 to reflect 100 percent of such revenues in pricing their products to compete with PGC
20 rates. In contrast, when UGI maximizes the value of the assets it does not release to
21 Choice Suppliers, only 75 percent of the revenues is reflected in the PGC price, thereby
22 already placing Choice Suppliers at a competitive advantage.

1 Q. Do you believe Choice Suppliers should be permitted to share in the secondary market
2 revenues derived from PGC assets not released to them simply because they are paying a
3 release rate based on weighted average costs?

4 A. No, just as PGC customers should not share in the revenues that Choice Suppliers receive
5 from released assets just because they are paying a PGC rate that is reflective of the costs
6 of the assets released to Choice Suppliers. In addition, I would point out that under
7 UGI's program Choice Suppliers can use the assigned capacity assets as they see fit in
8 terms of resale and off-system sales (subject to recall requirements) and they are able to
9 retain 100% of the associated revenues. PGC customers, by comparison, receive only
10 75% of the revenues from such transactions. This provides a competitive advantage to
11 Choice Suppliers as compared to PGC rates.

12
13 **ELECTION DATE**

14 Q. Does UGI disagree with any other statements in Mr. Crist's testimony?

15 A. Yes. On page 25, lines 7 and 18, Mr. Crist mentions that UGI's election date for the
16 annual period beginning November 1, 2012 is March 1, 2012. UGI's election date for
17 this period is actually July 15, 2012.

18
19 **CONCLUSION**

20 Q. What are UGI's recommendations for this proceeding?

21 A. The Supplier Group proposals should be rejected and the provisions of the Commission-
22 approved settlement on these issues should be reaffirmed. The Supplier Group's
23 recommendations fail to comply with FERC rules, fail to satisfy UGI's reliability

1 obligations, unfairly shift costs to PGC customers, are inconsistent with the
2 Commission's recent Search Order, and/or are inconsistent with the settlement terms
3 approved by the Commission in UGI's last PGC proceeding.

Exhibit UGI-SMH-R1

From: <infopost@spectraenergy.com>
To: LinkSystem@spectraenergy.com
Date: 12/7/2010 12:27 PM
Subject: Critical,Capacity Constraint,20101207,TE,007932908

Texas Eastern (TE) has experienced an outage at its Entriiken, Pennsylvania compressor station and repair efforts to restore this compressor station to full capacity are underway. As a consequence of the Entriiken outage, TE estimates that it is experiencing a capacity reduction of approximately 225,000 Dth through and downstream of Entriiken. While the reduction in capacity to date has not resulted in any interruption of services, TE will take this reduction into account as necessary in scheduling future gas flow. Accordingly, beginning as early as gas day Wednesday, December 8, 2010, Texas Eastern anticipates high system utilization that will require the restriction of lower priority services through this location.

In addition, the lack of full operating capability from its Entriiken station requires that customers/point operators downstream of this location be aware of the impact non-ratable takes from the system may have in causing delivery pressures reaching lower than desired levels. TE will be in communication, as necessary, with all point operators impacted by this system condition.

Furthermore, all holders of firm capacity should verify the utilization of their contracts so as to maximize their entitlements rights. In accordance with its FERC Gas Tariff, Texas Eastern reserves capacity for "no-notice" services (Rate Schedules CDS, SCT & SS-1). Additionally, contract holders are reminded that, in accordance with FERC policy and the Texas Eastern FERC Gas Tariff, once timely nominations have been scheduled for a given day, primary firm cannot bump secondary firm nominations. Therefore, shippers should be aware that only transportation under "no-notice" services will be available for intraday nominations once all interruptible service has been restricted.

Please contact your Operations Account Manager for any questions regarding this posting including assistance with the prioritization of firm contract activities.

Spectra Energy Transmission respects your online time and privacy. You have received this email because you elected to subscribe. To unsubscribe, login to the E-mail Notification Subscription page at <http://lnk.spectraenergy.com/Notification.asp>, uncheck the appropriate checkbox, and click the Submit button.

Texas Eastern Transmission, LP : Critical Notices

BackPrint

TSP: 007932908
TSP Name: Texas Eastern Transmission, LP
Critical Notice Description: Critical notice
Notice Effective Date: 12/14/2010
Notice Effective Time: 9:00:00 AM
Notice End Date: 12/15/2010
Notice End Time: 9:00:00 AM
Notice Identifier: 25009
Notice Status Description: Initiate
Notice Type Description: Capacity Constraint
Posting Date: 12/13/2010
Posting Time: 3:23:57 PM
Prior Notice Identifier:
Required Response Indicator Description: No response required
Response Date:
Response Time:
Subject: TE Pipeline Conditions for 12/14/2010

Notice Text:

Texas Eastern (TE) has experienced an outage at its Bernville, Pennsylvania Compressor Station (Bernville) and repair efforts to restore this compressor station to full capacity are underway. As a consequence of the Bernville outage, TE estimates that it is experiencing a capacity reduction of approximately 140,000 Dth through and downstream of Bernville (which includes the capacity loss associated with the Entriken outage). TE will take this reduction into account as necessary in scheduling gas flow beginning Gas Day Tuesday, December 14, 2010.

Additionally, the following restrictions will be in place on the TE system for Gas Day Tuesday, December 14, 2010:

TE has restricted interruptible and a portion of secondary out of path nominations that exceed entitlements flowing through Bernville / Marietta Compressor Stations. TE will not allow any increases in receipts sourced upstream of Bernville / Marietta for delivery downstream of Bernville / Marietta except for Firm No-Notice services.

TE has restricted interruptible and secondary out of path nominations that exceed entitlements sourced upstream of Chester Junction for delivery downstream of Chester Junction on the Philadelphia Lateral. No increases in deliveries sourced upstream of Chester Junction for delivery downstream of Chester Junction will be accepted except for Firm No-Notice services.

TE has scheduled and sealed nominations sourced between Little Rock and Fagus for delivery outside of this area. No increases in receipts between Little Rock and Fagus for delivery outside of this area will be accepted.

TE has scheduled and sealed nominations flowing through the Egypt Compressor Station (Egypt). TE will not allow any increases in receipts sourced upstream of Egypt for delivery downstream of Egypt.
As previously posted, Texas Eastern (TE) continues to experience high demand on its system.

Therefore, TE requires all delivery point operators to keep actual daily takes out of the system less than or equal to scheduled quantities regardless of their cumulative imbalance position. All receipt point operators are required to keep actual daily receipts into the system greater than or equal to scheduled quantities regardless of their cumulative imbalance position.

Furthermore, TE may force balance short TABS-1 pools as required.

TE may issue action alerts and/or OFOs as permitted in Section 4.3 of its General Term & Conditions of its FERC Gas Tariff against any shipper, point operator or TABS party failing to adhere to this critical notice. This warning will remain in effect until further notice.

TE requires all Power Plant Operators to provide information mandated by FERC Order No. 698. Information required includes the hourly consumption profile of directly connected power generation facilities. Order No. 698 will remain in effect until further notice.

In addition, the lack of full operating capability from its Bernville station requires that customers/point operators downstream of this location be aware of the impact non-ratable takes from the system may have in causing delivery pressures reaching lower than desired levels. TE will be in communication, as necessary, with all point operators impacted by this system condition.

All holders of firm capacity should verify the utilization of their contracts so as to maximize their entitlements rights. In accordance with its FERC Gas Tariff, Texas Eastern reserves capacity for "no-notice" services (Rate Schedules CDS, SCT & SS-1). Additionally, contract holders are reminded that, in accordance with FERC policy and the Texas Eastern FERC Gas Tariff, once timely nominations have been scheduled for a given day, primary firm cannot bump secondary firm nominations. Therefore, shippers should be aware that only transportation under "no-notice" services will be available for intraday nominations once all interruptible service has been restricted.

Customers are advised that capacity may become available as the nomination and confirmation process continues throughout the day.

Please contact your Operations Account Manager for any questions regarding this posting including assistance with the prioritization of firm contract activities.

BackPrint

Exhibit UGI-SMH-R2

TSP Name	Columbia Gas Transmission, LLC	TSP	054748041	Date		
Notice ID	6601027	Notice Type Description:	Capacity Constraint	Post	01/08/10	7:47:19 AM
		Notice Status/Description:	1 / Initiate	Notice Effective	01/08/10	12:00:00 AM
		Critical:	Y	Notice End	02/08/10	12:00:00 AM
		Required Response Indicator/Description:	5 / No Response Required	Response		

Subject: TCO - Specialized Delivery Requirements Effective for Timely 1/9/2010

Author: Mark Wilke

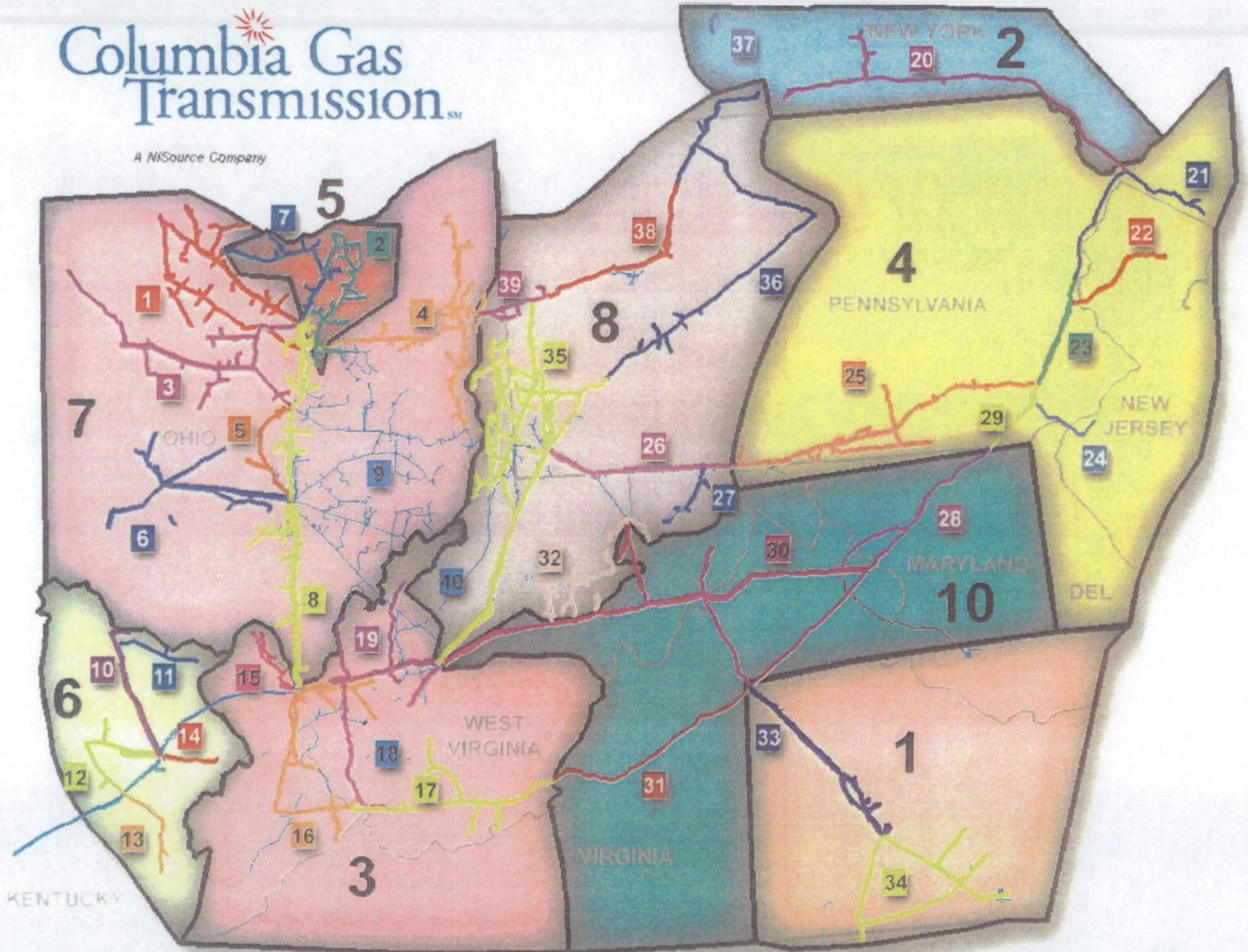
Notice Text

All customers nominating to Mkt Areas 20, 21, 22, 23, 24, 25, 28, 29, 30, 31, 33 and 34 currently utilizing secondary delivery points must return to their primary contractual delivery point(s).

Exhibit UGI-SMH-R3

Columbia Gas TransmissionSM

A NiSource Company



BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC
UTILITY COMMISSION, ET AL.

v.

UGI UTILITIES, INC. --
GAS DIVISION

Docket No. R-2011-2238953
C-2011-2243186
C-2011-2248211

ORIGINAL

SURREBUTTAL TESTIMONY
OF
SHAUN HART

UGI STATEMENT No. 3-SR

8/8/11
Harty
wjd

Dated: August 3, 2011

RECEIVED
2011 AUG 12 PM 12:39
SECRETARY'S BUREAU
PA PUC

1 Q. Please state your name and address.

2 A. Shaun M. Hart; my business address is UGI Utilities, Inc., 2525 North 12th Street, Suite
3 360, Reading, Pennsylvania 19612.

4
5 Q. Are you the same Shaun M. Hart who previously submitted direct and rebuttal testimony
6 in this proceeding?

7 A. Yes.

8

9 Q. What is the purpose of your surrebuttal testimony?

10 A. My surrebuttal testimony will respond to certain recommendations made by the Office of
11 Trial Staff (“OTS”) witness Michael J. Gruber in his rebuttal testimony regarding
12 assignment of storage capacity. My surrebuttal testimony also will address the
13 recommendations made in the rebuttal testimony of James L. Crist on behalf of
14 CenterPoint Energy Services, Inc. (“CES”), Jerome H. Rhoads, Inc. d/b/a Rhoads Energy
15 Corporation (“Rhoads”), Shipley Energy Company and Shipley Choice LLC (“Shipley”)
16 (collectively the “Supplier Group”).

17

18

I. OTS RECOMMENDATIONS

19 Q. Please summarize Mr. Gruber’s recommendations regarding assignment of storage
20 capacity.

21 A. On page 3 of his testimony, Mr. Gruber recommends that the UGI affiliated natural gas
22 distribution companies (“NGDCs”) provide an analysis of their storage capacity and the
23 load it was intended to serve. Mr. Gruber further states that if the load includes load

1 proposed to be served by an alternative supplier, then the Companies should assign
2 storage capacity to suppliers in their next 1307(f) proceeding. In addition, Mr. Gruber
3 would require alternative suppliers to agree to “whatever safeguards the Companies feel
4 they need to insure the supply is there when it is needed.”
5

6 Q. Do you agree with Mr. Gruber’s proposal?

7 A. I do not agree with his proposal. As I explained on pages 8-16 of my rebuttal testimony,
8 UGI cannot, under current federal rules, release certain Section 7(c) capacities that
9 comprise a substantial portion of certain of the UGI NGDCs’ supply portfolios.
10 Moreover, for the reasons also explained in my rebuttal testimony, I do not believe that
11 there are any contractual “safeguards” that could be established with Choice suppliers
12 that would ensure that gas inventories would be present and readily available in the event
13 storage contracts that are releasable were recalled from a Choice supplier to enable UGI
14 to perform its SOLR obligations. In addition, the UGI distribution system has certain
15 geographic segments that are not physically connected and which are served by different
16 storage services. A release of certain storage assets could leave UGI in a position that
17 renders UGI unable to balance these isolated distribution systems. As I also explained in
18 my rebuttal testimony, additional complexities would result from the fact that there
19 would be a limited quantity of releasable storage capacity, and at higher levels of choice
20 participation alternative gas supply assets would have to be released because of the lack
21 of available releasable storage, creating additional complexity and making it difficult for
22 Choice suppliers to plan effectively in pricing their service offerings.

1 Q. Doesn't UGI release storage assets to third parties under Asset Management Agreements
2 ("AMA")?

3 A. Yes. Over the past several years UGI NGDCs have had AMAs in place with UGI Energy
4 Services, Inc., Tenaska Gas Storage LLC and J.P. Morgan Ventures Energy Corporation
5 to manage certain PGC assets, including some releasable storage assets. However, these
6 AMAs contain significant monitoring, inventory transfer approval, information
7 disclosure, financial security, financial incentive/penalties, storage inventory pricing,
8 security interest and recall provisions that could not be carried over to Choice supplier
9 release agreements because certain AMA provisions would most likely not be acceptable
10 to Choice suppliers and because others would not be permissible under current
11 Commission restrictions. For example, AMA counterparties are limited to those who
12 meet minimum standards for financial capabilities, back office systems or industry
13 experience, with industry experience being judged based on resumes of staff dedicated to
14 the AMA and previous performance on other transactions. Under current Commission
15 rules, Choice suppliers could not be limited in this fashion.

16

17 Q. What other protections are found in UGI NGDC AMAs that either might not be
18 acceptable to Choice suppliers or which could not be imposed under current Commission
19 restrictions?

20 A. UGI NGDC AMAs provide substantial restrictions with respect to the transfer of storage
21 inventory. For example, Section 4.4 of a November 1, 2009 UGI AMA provides as
22 follows:

23 **4.4 Limitation of Administrator's Authority under the Contracts.** Unless
24 mutually agreed by the Parties, UGIES shall not be permitted to re-release or change any

1 primary receipt or primary delivery points associated with any of the Contracts included
2 in the Assets. In addition, UGIES shall not enter into any storage inventory transfer with
3 any third party during the Term unless such transfer is approved in advance by UGI.
4 UGI shall grant approval for such inventory transfers in its reasonable discretion if
5 UGIES demonstrates that such transfers shall not interfere with UGIES ability to meet
6 the delivery and storage refill requirements of this Agreement.

7 Emphasis supplied.

8 In addition, the AMA also provides UGI with the ability to recall capacity and
9 require a storage inventory transfer for, among other reasons,

10 “(a) an act or omission by UGIES which threatens the reliability of UGI’s
11 distribution services or the integrity of UGI’s Gas distribution system; (b)
12 an event of Force Majeure, (c) the need to protect UGI’s Gas distribution
13 system integrity, (d) the need for UGI to meet its public utility
14 obligations....”

15 The AMA further provides for substantial cooperation between UGI and the asset
16 manager for optimizing the use of assets, including the ability for UGI to control the
17 pricing of summer storage injections. In addition, the agreements provide for the ability
18 for UGI to continuously monitor gas storage inventories and asset manager gas
19 transaction through extensive daily, weekly and monthly reporting requirements.

20 The agreement further provides for significant financial incentives for the asset
21 manager to perform, including significant penalties such as:

- 22 • **Indemnification of UGI** – Broad indemnification rights granted to UGI.
- 23 • **Security Interest** – UGI is granted a security interest in storage inventories.
- 24 • **Financial Security** – The asset manager is required to provide substantial levels of
25 financial security far in excess of what is permitted under UGI’s choice supplier
26 tariff.
- 27 • **Other Remedies** – Asset manager liable for lost profits and commercial damages
28 resulting from non-performance.
- 29 • **Failure to Deliver SEWQ** – A \$1.00 per Dth administrative fee is imposed for
30 storage quantities not delivered to UGI.

- 1 • **Failure to Receive OIQ** – A \$1.00 per Dth administrative fee is imposed for failures
2 to make storage injections.
- 3 • **Failure to Deliver SEIQ** – A \$1.00 per Dth administrative fee is imposed for failures
4 to make storage injections.
- 5 • **Reconciliation of Storage Balance Difference** – A \$1.00 per Dth administrative fee
6 is imposed on reconciling storage balancing when the contract is terminated.

7

8 Q. Could UGI impose these conditions on a Choice supplier as part of an agreement to
9 release storage capacity to the Choice supplier?

10 A. I am not aware of any Choice supplier, let alone an agreement amongst all suppliers, that
11 would be willing to agree to these conditions which would be necessary in some form to
12 ensure reliability. For example, some of the existing Choice Suppliers serving customers
13 behind the UGI NGDCs distribution systems have requested that the capacity release of
14 firm transportation contracts not be released directly to them when mandatory capacity
15 assignment takes affect. Instead, these Choice Suppliers have requested the releases be
16 made to the Choice Supplier's supplier. This request could be due to the fact that some
17 of the Choice suppliers may not have the back office staff to effectively manage the
18 releases or they can not meet the requirements of the interstate pipelines. Moreover, as a
19 result of a legal challenge brought by Shipley, the Commission has placed strict limits on
20 the amount of financial security that can be required of UGI Choice suppliers and has
21 said that such security cannot be used to ensure the payment of penalties. For these
22 reasons, UGI does not believe that Choice suppliers would be willing to accept many of
23 the terms set forth in AMAs or that UGI would be permitted under the terms of its Choice
24 supplier tariff to impose other terms.

1 Q. Are UGI's storage inventory recovery concerns limited to situations where a Choice
2 supplier becomes bankrupt?

3 A. No. A Choice supplier could be solvent and still withdraw from the market with released
4 storage capacity that does not have sufficient storage inventories to enable UGI to meet
5 its SOLR obligations. However, bankruptcy laws could present a further barrier to UGI's
6 ability to immediately utilize any storage inventories that remain in recalled storage
7 capacity because of such inventories may be considered part of the bankruptcy estate of
8 the debtor. While UGI has placed terms in its AMAs that might facilitate its ability to
9 obtain storage inventories from a bankruptcy estate, these terms remain untested, and it is
10 not clear that they would provide immediate access to the storage inventories even if they
11 were successful. Moreover, even if a Choice supplier were willing to transfer storage
12 inventories to UGI, it might want or need to insist that UGI pay for such inventories at
13 current market prices or at the price it incurred when it filled storage. Such prices,
14 however, might not be consistent with least cost pricing. Under the AMA, UGI retains
15 control of the pricing of storage inventory injections that are to be returned to UGI.

16
17 Q. Mr. Gruber suggests that UGI allow customers of alternative suppliers to inform the
18 Company that it no longer needs to acquire capacity to serve these customers and that this
19 would allow the UGI NGDCs to reduce their capacity. Do you agree with this
20 suggestion?

21 A. As a condition of this suggestion, Mr. Gruber also states that the UGI NGDCs would be
22 relieved of their responsibility to provide service to these customers. Under the Natural
23 Gas and Competition Act, UGI has a statutory obligation to serve retail customers, even

1 if their supplier fails to serve them. I have been informed by counsel that the
2 Commission cannot alter this statutory requirement. Therefore, I do not believe that Mr.
3 Gruber's suggestion is feasible.

4
5 **SUPPLIER GROUP RECOMMENDATIONS**

6 Q. In his testimony, Mr. Crist notes that OTS raised an issue regarding calculation of the
7 Migration Rider. Please respond.

8 A. Mr. Crist does not present any new testimony or facts regarding the calculation of the
9 Migration Rider but merely agrees with the OTS recommendation. Mr. Crist's
10 testimony, therefore, is not proper rebuttal testimony because it does not "rebut" any
11 parties' direct testimony. I further note that UGI addressed the OTS recommendation in
12 UGI Statement No. 1-R, the Rebuttal Testimony of William J. McAllister.

13
14 Q. In his testimony, Mr. Crist also claims that he agrees with Mr. Mierzwa's
15 recommendations regarding the amount of capacity contracted for by the Company.
16 Please respond.

17 A. Again, Mr. Crist's testimony is not proper rebuttal testimony because it does not "rebut"
18 any parties' direct testimony. In addition, Mr. Crist has not presented any independent
19 analysis of the Company's capacity requirements, and in fact in discovery indicated that
20 neither Mr. Crist, Centerpoint, Rhoads nor Shipley has performed any analysis to
21 determine whether UGI's current contracted for capacity is or is not necessary to meet
22 UGI's supplier of last resort obligations. See Exhibit UGI-SMH-SR1.

1 I further note that certain of Mr. Mierzwa's arguments regarding the Company's
2 peak capacity are based on his assumption that customer conservation efforts are
3 reducing the Company's peak demands. However, in discovery responses that the
4 Company received on July 25, 2011, Mr. Mierzwa himself indicated that he had not
5 performed any analysis of the Company's customers' historic conservation efforts outside
6 of the analysis presented in his direct testimony and that he had conducted no studies of
7 the future conservation efforts of the Company's customers. Those responses are
8 provided in Exhibit UGI-SMH-SR2. I do not believe that Mr. Mierzwa's direct
9 testimony provides any substantive factual analysis to support his assumptions regarding
10 customer conservation.

11 In addition, I note that the Company further addressed Mr. Mierzwa's
12 recommendations regarding peak capacity in UGI Statement No. 2-R, the Rebuttal
13 Testimony of David C. Beasten.

14
15 Q. On page 4 of this testimony, Mr. Crist states that in UGI's case, suppliers have entered
16 into their own contracts for capacity or obtained delivery at the city gate by contracting
17 for such service from a wholesale gas supplier that has such capacity. Do you have a
18 response to this statement?

19 A. **[BEGIN HIGHLY CONFIDENTIAL SECTION]**

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22

[END HIGHLY CONFIDENTIAL SECTION]

Q. On page 4 of his Rebuttal testimony, Mr. Crist recommends that “The Company allow natural gas suppliers to provide their own capacity, instead of continuing to contract for

1 or renew capacity that may not be needed, and then assigning such capacity to suppliers
2 on a mandatory basis.” Do you agree with this recommendation?

3 A. No. Mr. Crist’s recommendation does not meet UGI’s SOLR obligation, because UGI
4 has no access to a Supplier’s capacity. A Choice Supplier could simply choose to exit the
5 choice market and shift the capacity to a different customer such as a power plant or other
6 industrial user. UGI would not be able to force the Choice Supplier to turn over capacity
7 to meet the needs of the returning choice customers. Similarly, if a Choice Supplier
8 defaults, I am advised by counsel that UGI has no legal right to the capacity held by
9 another company.

10 **[BEGIN HIGHLY CONFIDENTIAL SECTION]**

11
12
13
14
15
16
17
18
19
20
21
22
23

1 [END HIGHLY CONFIDENTIAL SECTION.]

2 Moreover, I note that UGI has discussed capacity assignment rules with a broad
3 range of marketers on UGI's system over the past several years. Therefore, I do not
4 believe that any marketer, including members of the Supplier Group, can claim that
5 UGI's capacity assignment program is unfair because they have already entered into
6 contracts for capacity.

7

8 Q. Does this conclude your surrebuttal testimony?

9 A. Yes.

Exhibit UGI-SMH-SR1

UGI-I-17
James L. Crist

Pennsylvania Public Utility Commission v. UGI Utilities, Inc. -- Gas Division
Docket No. R-2011-2238953

Supplier Group's Responses
to Interrogatories of
UGI Utilities, Inc. -- Gas Division
Set I

UGI-I-17:

Have Mr. Crist, Centerpoint, Rhoads or Shipley performed any analysis to determine whether UGI's current contracted for capacity is or is not necessary to meet UGI's supplier of last resort obligations? If yes, provide full and complete copies of any such analysis.

Response:

No.

Exhibit UGI-SMH-SR2

RESPONSES TO INTERROGATORIES AND REQUESTS FOR
PRODUCTION OF DOCUMENTS OF
UGI UTILITIES, INC. - GAS DIVISION - SET II
OFFICE OF CONSUMER ADVOCATE

DOCKET NOS. R-2011-2238953, C-2011-2243186, C-2011-2248211

1. See OCA Statement No. 1, page 6, line 20 through page 8, line 16. Please identify whether Mr. Mierzwa conducted any analyses or studies of the conservation efforts of UGI's customers over the past four years. If so, please provide copies of all documents, data, studies, journal articles, or analyses reviewed by, relied upon, or performed by Mr. Mierzwa in his evaluation of the historical conservation efforts of UGI's customers.

Response:

The extent of Mr. Mierzwa's analysis of the historical conservation efforts of the Company's customers is presented and discussed in the referenced testimony.

RESPONSES TO INTERROGATORIES AND REQUESTS FOR
PRODUCTION OF DOCUMENTS OF
UGI UTILITIES, INC. - GAS DIVISION - SET II
OFFICE OF CONSUMER ADVOCATE

DOCKET NOS. R-2011-2238953, C-2011-2243186, C-2011-2248211

2. See OCA Statement No. 1, page 6, line 20 through page 8, line 16. Please identify whether Mr. Mierzwa conducted any analyses or studies of the future conservation efforts of UGI's customers. If so, please provide copies of all documents, data, studies, journal articles, or analyses reviewed by, relied upon, or performed by Mr. Mierzwa in his evaluation of the future conservation efforts of UGI's customers.

Response:

Mr. Mierzwa has conducted no studies of the future conservation efforts of the Company's customers.

PUBLIC VERSION

Exhibit UGI-SMH-SR3

UGI-I-11
James L. Crist

Pennsylvania Public Utility Commission v. UGI Utilities, Inc. -- Gas Division
Docket No. R-2011-2238953

Supplier Group's Responses
to Interrogatories of
UGI Utilities, Inc. -- Gas Division
Set I

UGI-I-11:

Re: SG St. No. 1, p. 17:

Please identify all capacity agreements entered into by Centerpoint that were effective during November 2010 through March 2012 that allow Centerpoint to deliver gas to UGI's system. For each agreement, identify:

- (a) The amount of capacity contracted for by Centerpoint;
- (b) When the capacity is and is not available;
- (c) The term of the agreement;
- (d) The price of the capacity under each agreement;
- (e) Identify the primary firm delivery point for each contract; and
- (f) Identify the maximum daily delivery point obligation or the demand point entitlement for each contract.

Response:

HIGHLY CONFIDENTIAL

UGI-I-12
James L. Crist

Pennsylvania Public Utility Commission v. UGI Utilities, Inc. -- Gas Division
Docket No. R-2011-2238953

Supplier Group's Responses
to Interrogatories of
UGI Utilities, Inc. -- Gas Division
Set I

UGI-I-12:

Re: SG St. No. 1, p. 17:

Please identify all capacity agreements entered into by Rhoads that were effective during November 2010 through March 2012 that allow Rhoads to deliver gas to UGI's system. For each agreement, identify:

- (a) The amount of capacity contracted for by Rhoads;
- (b) When the capacity is and is not available;
- (c) The term of the agreement;
- (d) The price of the capacity under each agreement;
- (e) Identify the primary firm delivery point for each contract; and
- (f) Identify the maximum daily delivery point obligation or the demand point entitlement for each contract.

Response:

HIGHLY CONFIDENTIAL

UGI-I-13
James L. Crist

Pennsylvania Public Utility Commission v. UGI Utilities, Inc. -- Gas Division
Docket No. R-2011-2238953

Supplier Group's Responses
to Interrogatories of
UGI Utilities, Inc. -- Gas Division
Set I

UGI-I-13:

Re: SG St. No. 1, p. 17:

Please identify all capacity agreements entered into by Shipley that were effective during November 2010 through March 2012 that allow Shipley to deliver gas to UGI's system. For each agreement, identify:

- (a) The amount of capacity contracted for by Shipley;
- (b) When the capacity is and is not available;
- (c) The term of the agreement;
- (d) The price of the capacity under each agreement;
- (e) Identify the primary firm delivery point for each contract; and
- (f) Identify the maximum daily delivery point obligation or the demand point entitlement for each contract.

Response:

HIGHLY CONFIDENTIAL

Pennsylvania Public Utility Commission v. UGI Utilities, Inc. -- Gas Division
Docket No. R-2011-2238953

Supplier Group's Responses
to Interrogatories of
UGI Utilities, Inc. -- Gas Division
Set I

UGI-I-14:

Re: SG St. No. 1, p. 17, lines 14-15:

Identify all suppliers that have obtained their own capacity to deliver gas to the UGI system. For each supplier, identify:

- (a) The amount of capacity contracted for;
- (b) When the capacity is and is not available;
- (c) The term of each capacity agreement;
- (d) The price for capacity under each agreement;
- (e) Identify the primary firm delivery point for each contract; and
- (f) Identify the maximum daily delivery point obligation or the demand point entitlement for each contract.

Response:

Please see the responses to UGI-I-11, UGI-I-12, and UGI-I-13. CES, Shipley, and Rhoads are not aware of whether other suppliers have obtained their own capacity to deliver gas to the UGI system.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission,	:	
Office of Consumer Advocate,	:	R-2011-2238953
Office of Small Business Advocate,	:	C-2011-2243186
	:	C-2011-2248211
v.	:	
	:	
UGI Utilities, Inc. – Gas Division 1307(f)	:	

**UGI UTILITIES, INC. – GAS DIVISION’S ERRATA SHEET
TO UGI STATEMENT NO. 1, PAGE 5**

The following are the corrections to the Direct Testimony of William J. McAllister submitted June 1, 2011 in the above-captioned proceeding.

Page #	Line #	Correction	
5	3	Change “Rates” to “Rate”	ORIGINAL
5	3	Remove “, CIAC,”	
5	4	Remove “and GL”	

RECEIVED
2011 AUG 12 PM 12:38
SECRETARY'S BUREAU

1 \$0.6212 is added, and the Interruptible Revenue Credit (IRC) of (\$0.2285)/Mcf is credited,
2 resulting in the proposed PGC(1) rate of \$8.49 per Mcf. As discussed in more detail, an
3 allowable portion of Tennessee Pipeline refunds will also be allocated to Rate N customers
4 consistent with the Commission's Order at Docket No. P-2009-2149107 (Order entered
5 February 2, 2010) through the E-Factor resulting in a non-residential PGC(1) rate of
6 \$8.48/Mcf for customers served on these rates.

7 Q. How do these projected PGC rates compare to the current PGC rates?

8 A. The current PGC rates of \$8.49/Mcf became effective June 1, 2011. The current residential
9 PGC rate is \$8.49/Mcf. The current non-residential PGC rate is \$8.48/Mcf. These PGC
10 rates reflected a quarterly PGC rate increase of \$0.48/Mcf. Thus, UGI's proposed PGC rates
11 effective December 1, 2011, will result in no change.

12 Q. Please summarize the major changes of the various PGC(1) components.

13 A. Schedule UGI-WJM-2 quantifies the changes by component. Essentially, the proposed PGC
14 rates are a function of the increase in the "C/S" Factor as well as the reduction in the "E/S"
15 Factor.

16 Q. Please define the PGC(2) rate category.

17 A. The PGC(2) rate category is comprised of Rate BD - Business Development, Rate CIAC,
18 Commercial and Industrial Air Conditioning, and the Total Space Conditioning (TSC)
19 option of Rates R and N.

20 Q. Please summarize the computation of the proposed PGC(2) rate for the twelve months
21 beginning December 1, 2010.

22 A. As shown on Schedule A, Page 2, the total PGC(2) rate, expressed in \$/Mcf, is determined
23 by dividing the Projected Cost of Gas for the PGC(2) rate class (C2) of \$0.4 MM by
24 Projected Sales for the PGC(2) rate class (S2) of 0.1BCF. This results in a projected cost per

1 \$0.6212 is added, and the Interruptible Revenue Credit (IRC) of (\$0.2285)/Mcf is credited,
2 resulting in the proposed PGC(1) rate of \$8.49 per Mcf. As discussed in more detail, an
3 allowable portion of Tennessee Pipeline refunds will also be allocated to Rate N customers
4 consistent with the Commission's Order at Docket No. P-2009-2149107 (Order entered
5 February 2, 2010) through the E-Factor resulting in a non-residential PGC(1) rate of
6 \$8.48/Mcf for customers served on these rates.

Deleted: s
Deleted: , CIAC, and GL

7 Q. How do these projected PGC rates compare to the current PGC rates?

8 A. The current PGC rates of \$8.49/Mcf became effective June 1, 2011. The current residential
9 PGC rate is \$8.49/Mcf. The current non-residential PGC rate is \$8.48/Mcf. These PGC
10 rates reflected a quarterly PGC rate increase of \$0.48/Mcf. Thus, UGI's proposed PGC rates
11 effective December 1, 2011, will result in no change.

12 Q. Please summarize the major changes of the various PGC(1) components.

13 A. Schedule UGI-WJM-2 quantifies the changes by component. Essentially, the proposed PGC
14 rates are a function of the increase in the "C/S" Factor as well as the reduction in the "E/S"
15 Factor.

16 Q. Please define the PGC(2) rate category.

17 A. The PGC(2) rate category is comprised of Rate BD - Business Development, Rate CIAC,
18 Commercial and Industrial Air Conditioning, and the Total Space Conditioning (TSC)
19 option of Rates R and N.

20 Q. Please summarize the computation of the proposed PGC(2) rate for the twelve months
21 beginning December 1, 2010.

22 A. As shown on Schedule A, Page 2, the total PGC(2) rate, expressed in \$/Mcf, is determined
23 by dividing the Projected Cost of Gas for the PGC(2) rate class (C2) of \$0.4 MM by
24 Projected Sales for the PGC(2) rate class (S2) of 0.1BCF. This results in a projected cost per

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission,	:	
Office of Consumer Advocate,	:	R-2011-2238953
Office of Small Business Advocate,	:	C-2011-2243186
	:	C-2011-2248211
v.	:	
	:	
UGI Utilities, Inc. – Gas Division 1307(f)	:	

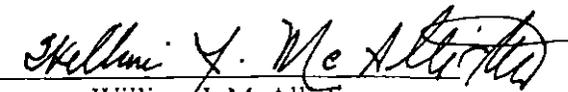
ORIGINAL

VERIFICATION

I, William J. McAllister, being a Senior Rate Analyst of UGI Utilities, Inc. – Gas Division (“UGI”) hereby state that the testimony set forth in UGI Statement Nos. 1 and 1-R, including the errata sheet to Statement No.1, Page 5, are true and correct to the best of my knowledge, information and belief, and that if asked orally at a hearing in this matter, my answers would be as set forth herein. I further state that I am responsible for Schedule UGI-WJM-1, Schedule UGI-WJM-2 and the contents of the Company’s June 1, 2011 Filing and April 29, 2011 Prefiling listed on Schedule UGI-WJM-1 for which I am identified as the witness, and that they are true and correct to the best of my knowledge, information and belief.

I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 relating to unsworn falsification to authorities.

Date: August 5, 2011



William J. McAllister

RECEIVED
2011 AUG 12 PM 12:38
SECRETARY'S BUREAU

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission,	:	
Office of Consumer Advocate,	:	R-2011-2238953
Office of Small Business Advocate,	:	C-2011-2243186
	:	C-2011-2248211
v.	:	
	:	
UGI Utilities, Inc. – Gas Division 1307(f)	:	

ORIGINAL

VERIFICATION

I, David C. Beasten, being Manager – Supply Planning and Procurement of UGI Utilities, Inc. – Gas Division (“UGI”) hereby state that the testimony set forth in UGI Statement Nos. 2 and 2-R are true and correct to the best of my knowledge, information and belief, and that if asked orally at a hearing in this matter, my answers would be as set forth herein. I further state that I am responsible for Exhibits UGI-DCB-1, UGI-DCB-2, UGI-DCB-3, UGI-DCB-4 and the contents of the Company’s June 1, 2011 Filing and April 29, 2011 Prefiling listed on Schedule CPG-WJM-1 for which I am identified as the witness, and that they are true and correct to the best of my knowledge, information and belief.

I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 relating to unsworn falsification to authorities.

Date: August 5, 2011



David C. Beasten

2011 AUG 12 PM 12:36
SECRETARY'S SIGNATURE

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission,	:	
Office of Consumer Advocate,	:	R-2011-2238953
Office of Small Business Advocate,	:	C-2011-2243186
	:	C-2011-2248211
v.	:	
	:	
UGI Utilities, Inc. – Gas Division 1307(f)	:	

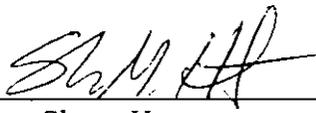
ORIGINAL

VERIFICATION

I, Shaun Hart, being Manager – Supply of UGI Utilities, Inc. – Gas Division (“UGI”) hereby state that the testimony set forth in UGI Statement Nos. 3, 3-R and 3-SR are true and correct to the best of my knowledge, information and belief, and that if asked orally at a hearing in this matter, my answers would be as set forth herein. I further state that I am responsible for Appendix UGI-SMH-1, Exhibits UGI-SMH-R1, UGI-SMH-R2, UGI-SMH-R3, UGI-SMH-SR1, UGI-SMH-SR2, UGI-SMH-SR3, and the contents of the Company’s June 1, 2011 Filing and April 29, 2011 Prefiling listed on Schedule UGI-WJM-1 for which I am identified as the witness, and that they are true and correct to the best of my knowledge, information and belief.

I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 relating to unsworn falsification to authorities.

Date: August 8, 2011



Shaun Hart

RECEIVED
2011 AUG 12 PM 12:38
SECRETARY'S OFFICE