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File #: 206600

August 14, 2024

VIA ELECTRONIC FILING

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

**Re: Pennsylvania Public Utility Commission v. UGI Utilities, Inc. - Gas Division 1307(f)
Proceeding
Docket Nos. R-2024-3048828, et al.**

Dear Secretary Chiavetta:

Enclosed for filing is the Joint Petition for Settlement of Section 1307(f) Rate Investigation in the above-referenced proceeding. Copies of this filing will be provided as indicated on the Certificate of Service.

Respectfully submitted,



Devin Ryan

DR/dmc
Attachments

cc: Honorable Dennis J. Buckley (*via email; w/attachments*)
Honorable Alphonso Arnold, III (*via email; w/attachments*)
Certificate of Service

CERTIFICATE OF SERVICE

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

VIA E-MAIL

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Date: August 14, 2024

A handwritten signature in blue ink, consisting of several overlapping, fluid strokes that form an abstract, cursive shape.

Devin T. Ryan

Statements in Support of the Settlement are attached as **Appendices A through C**.

I. BACKGROUND

1. UGI Gas is a natural gas distribution company with gross intrastate annual operating revenues in excess of \$40 million. Pursuant to the provisions of Section 1307(f) of the Public Utility Code, 66 Pa. C.S. § 1307(f), and the Commission’s gas cost recovery regulations at 52 Pa. Code §§ 53.61-53.69, the Company initiated this annual proceeding to propose a PGC rate to become effective on December 1, 2024.

2. On May 1, 2024, the Company made its 30-day pre-filing (“Book 1” or “UGI Gas Exhibit 1”) with the Commission (containing data related to the recovery of purchased gas costs) pursuant to Section 1307(f) of the Public Utility Code, 66 Pa. C.S. § 1307(f), and in accordance with the Commission’s regulations at 52 Pa. Code §§ 53.64 and 53.65.

3. On May 17, 2024, the OCA filed a Notice of Appearance, Formal Complaint, and Public Statement.

4. On May 20, 2024, UGI Gas was served with the Formal Complaint filed by Brian Dugas at Docket No. C-2024-3049100 concerning the PGC case.

5. On May 22, 2024, the OSBA filed a Notice of Appearance.

6. On May 24, 2024, UGI Gas was served with the Formal Complaint filed by Jean Switch at Docket No. C-2024-3049239 concerning the PGC case.

7. On May 31, 2024, UGI Gas filed its definitive PGC filing (“Book 2” or “UGI Gas Exhibit 2”), including supporting information required by the Commission’s regulations, the Company’s direct testimony and exhibits and Pro Forma Tariff Supplement reflecting actual and projected changes in natural gas costs. UGI Gas is proposing a PGC rate of \$5.4483 per Mcf, effective December 1, 2024.

8. On June 4, 2024, I&E filed a Notice of Appearance.

9. On June 12, 2024, an Initial Prehearing Order was issued by the ALJs, directing the parties to file Prehearing Memoranda on or before June 13, 2024.

10. On June 13, 2024, Prehearing Memoranda were filed by UGI Gas, I&E, OCA, and OSBA.

11. A Prehearing Conference was held telephonically before the ALJs at 11:00 am on June 14, 2024.

12. On June 17, 2024, UGI Gas was served with the Formal Complaint filed by Juan Ramos at Docket No. C-2024-3049558 concerning the PGC case.

13. On June 17, 2024, UGI Gas was served with the Formal Complaint filed by Paula Mercuri at Docket No. C-2024-3049667 concerning the PGC case.

14. On June 27, 2024, UGI Gas was served with the Formal Complaint filed by Louis Kern at Docket No. C-2024-3049789 concerning the PGC case. The Company also was served with the Formal Complaint filed by Anthony DeBellis at Docket No. C-2024-3049790 concerning the PGC case. The Company also was served with the Formal Complaint filed by David BeedleMann at Docket No. C-2024-3049797 concerning the PGC case.

15. On June 28, 2024, I&E and OCA served their written direct testimony and exhibits.

16. On July 15, 2024, UGI Gas served its written rebuttal testimony and exhibits.

17. On July 22, 2024, I&E and OCA served their written surrebuttal testimony and exhibits.

18. On July 24, 2024, UGI Gas served its written rejoinder testimony.

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

20. On July 24, 2024, counsel for the Company advised the ALJs of the settlement in principle and requested that the scheduled evidentiary hearing be canceled and that the Joint Petitioners be permitted to admit their evidence by written stipulation.

21. Thereafter, on July 24, 2024, the ALJs advised the Parties that the evidentiary hearing would be canceled, and that the Parties' written testimony and exhibits could be admitted into the record by stipulation. The ALJs also directed the Parties to file the Joint Petition for Settlement and Joint Stipulation for Admission of Evidence by the August 14, 2024 due date for Reply Briefs.

22. On August 13, 2024, UGI Gas filed a Motion for Protective Order.

23. On August 14, 2024, the Joint Petitioners filed a Joint Stipulation for Admission of Evidence, with accompanying signed verifications of the sponsoring witnesses, to admit the testimony and exhibits into the record.

II. TERMS OF SETTLEMENT

A. DESIGN DAY

24. UGI Gas will be permitted to use a design day figure of 2.32 BCF, which includes 2.26 BCF of design cold firm requirements and 0.06 BCF of capacity reserves for the Company's firm core market (PGC and Choice Customer markets) needs.

B. PEAK DAY CAPACITY SUPPLY ADDITIONS

25. To address its total peak day capacity supply shortfall needs, UGI Gas will accept the following proposals:

Source	Term	Maximum Daily Quantity (Dth per day)
Supplier A (Tennessee Delivered)	2024-2029	8,394
Supplier B (Uniondale 282 Mobile LNG)	2024-2026	10,000
Total		18,394

26. Specifically, UGI Gas will accept the peak day offer from Supplier A for 8,394 Dth per day for a 5-year term to address the Company's identified peak day capacity shortfall (as described in UGI Gas St. No. 2, the direct testimony of Jesse R. Tyahla, at page 21 and also appearing on page 5 in Table 1 of his direct testimony).

27. UGI Gas also will accept the Uniondale 282 Mobile liquefied natural gas ("LNG") offer from Supplier B for 10,000 Dth per day for a 2-year term beginning with the 2024-2025 winter season (as described in UGI Gas St. No. 2 at pages 23-24).

C. STORAGE CAPACITY ADDITION

28. UGI Gas shall be permitted recovery of costs related to the firm storage capacity Eastern Gas Transmission and Storage ("EGTS") Open Season for 56,667 Dth per day of deliverability through the Company's upstream capacity on Texas Eastern and Tennessee and with a term of 21 years (as detailed in UGI Gas St. No. 2 at pages 27-28).

D. LONG-TERM PEAK CAPACITY SHORTFALL PLANNING

29. As described on page 11 of UGI Gas St. No. 2, the Company will implement a 5-year capacity shortfall plan (appearing on page 5 in Table 1 of UGI Gas St. No. 2) to establish a capacity target and optimal step-up capacity targets for intermediate years. This 5-year plan will be incorporated into annual Requests for Proposal ("RFP") processes and refreshed each year. UGI Gas will present any resulting capacity contracts for review and approval in a future PGC proceeding.

E. PEAKING CONTRACT RFP MODIFICATION

30. The Company will continue to use the RFP format as agreed to in the 2023 PGC Settlement at Docket No. R-2023-3040290 on a prospective basis. The Company's bid form will request that suppliers provide bids based on (a) payment terms that exclude a November payment

and (b) payment terms that include a November payment. The Company will evaluate RFP responses in a manner, which is inclusive of projected PGC over/under collection and PGC interest impacts with regard to fixed charges in live Excel format. The Company will make the RFP responses available in future PGC proceedings to the statutory Parties. The Company will make a recommendation in its 2025 PGC proceeding based on the results of the three-year pilot study, as required under the 2021 PGC Settlement approved at Docket No. R-2021-3025652.

F. HEDGE PLAN TRIGGER STUDY RECOMMENDATIONS

31. The Company will implement the recommendations provided in Gelber & Associates' Trigger Price Study ("Study"), conducted per the 2023 PGC Settlement (Docket No. R-2023-3040290) by way of a 4-year pilot commencing on January 1, 2025. The recommendations from the Study, described on pages 36-37 of UGI Gas St. No. 2, include:

- a. Change the strategy of the current hedge program from an even distribution of monthly hedge purchases to a plan that is flexible and has "trigger hedge" amounts that are more heavily weighted towards months where the futures prices have historically been lower than other purchasing months; and
- b. Revise the current schedule for hedge purchases from fixed days on a weekly basis to a market data-driven and informed, analytical determination of the most effective days within each month to purchase hedge positions.

32. During the pilot, UGI Gas will compare the actual cost of the hedging activities set forth in the Study's recommendations against the performance that would have otherwise occurred under the Company's existing programmatic approach to hedging purchases.

33. UGI Gas will hire a consultant, through an RFP process, to implement these recommendations and collect and analyze the data needed to compare the pilot against UGI Gas's programmatic methodology. The Company will recover these consultant costs, related to

implementing the recommendations of the Study, as well as analyzing and comparing the pilot data to UGI Gas's programmatic hedging approach in PGC rates.

G. QUARTERLY ADJUSTMENT METHODOLOGY

34. The Company will continue the side-by-side analysis of the QAM 1 and QAM 2 methods until the next PGC proceeding. In the Company's 2027 PGC filing, it will propose criteria for use in determining when QAM1 and QAM 2 will be used prospectively to calculate the PGC rate change as agreed to in the 2023 PGC Settlement approved at Docket No. R-2023-3040290.

H. FERC PARTICIPATION COSTS

35. UGI Gas agrees to withdraw its proposal for recovery of FERC Participation Costs through PGC rates without prejudice and specifically reserves its right to make additional proposals relating to recovery of FERC Participation costs in future rate case and subsequent PGC proceedings, regarding unbundling these costs from base rates and moving them into PGC rates, respectively. All parties reserve their respective rights to address any such proposal in any future base rate or subsequent PGC proceeding.

III. STANDARDS AND FINDINGS

36. This proceeding involves Commission review pursuant to Sections 1307 and 1318 of the Public Utility Code. Under Section 1307(f), the Commission, after hearing, must determine what portion of the gas costs UGI Gas may recover for a previous 12-month period under the standards set forth in Section 1318. In addition, the Commission must determine whether the requirements of Section 1318 can be met. This determination must precede Commission approval of the Company's proposed rates. The historic period reviewed in this proceeding is the 12-month reconciliation period ending March 31, 2024. The proposed rates are intended to become effective December 1, 2024.

A. HISTORIC RECONCILIATION PERIOD STANDARDS

37. With respect to UGI Gas’s gas purchases and gas purchasing practices during the 12-month historic reconciliation period ending March 31, 2024, the Joint Petitioners agree that UGI Gas has met the standards set forth in Section 1318 of the Public Utility Code, as required by Section 1307(f)(5) of the Public Utility Code. As a result, the Joint Petitioners request that the Commission find, pursuant to Section 1307(f)(5) of the Public Utility Code, and based upon the evidence presented by the Joint Petitioners in this case, that during the 12-month period ended March 31, 2024, UGI Gas has pursued a least-cost fuel procurement policy, consistent with its obligation to provide safe, adequate and reliable service to its customers, as required by Section 1318 of the Public Utility Code. Information submitted by UGI Gas in support of the required statutory findings can be found in the following sections of UGI Gas Exhibit 1 and UGI Gas Exhibit 2:²

- a) FERC Participation (66 Pa. C.S. §§ 1317(a)(1), 1318(a)(1); 52 Pa. Code § 53.64(c)(4)): UGI Gas Exhibit 1, Section 3, and UGI Gas Exhibit 2, UGI Gas St. No. 2, Written Direct Testimony of Jesse R. Tyahla, Director – Energy Supply and Planning.
- b) Supplier Negotiations/Renegotiations (66 Pa. C.S. §§ 1317(a)(2), 1318(a)(2); 52 Pa. Code §§ 53.64(c)(3), (c)(6)): UGI Gas Exhibit 1, Sections 1, 2 and 5, and UGI Gas Exhibit 2, UGI Gas St. No. 2, Written Direct Testimony of Jesse R. Tyahla, Director – Energy Supply and Planning.

² UGI Gas Exhibits 1 and 2 are fully described in the Joint Stipulation for Admission of Evidence, which was filed on August 14, 2024.

- c) Efforts to Obtain Lower Cost Supplies (66 Pa. C.S. §§ 1317(a)(3), 1318(a)(3); 52 Pa. Code §§ 53.64(c)(1), (c)(3), (c)(6)): UGI Gas Exhibit 1, Sections 1, 2, and 5, UGI Gas Exhibit 2, UGI Gas St. No. 2, Written Direct Testimony of Jesse R. Tyahla, Director – Energy Supply and Planning.
- d) Withheld Supplies (66 Pa. C.S. §§ 1317(a)(4), 1318(a)(4); 52 Pa. Code § 53.64(c)(6)): UGI Gas Exhibit 1, Section 5.
- e) Affiliated Purchases (66 Pa. C.S. §§ 1317(b), 1318(b); 52 Pa. Code § 53.65): UGI Gas Exhibit 1, Section 13.
- f) Least Cost Fuel Procurement Policy (66 Pa. C.S. §§ 1317(a), 1318(a); 52 Pa. Code §§ 53.64(c)(1), (c)(3), (c)(6)): UGI Gas Exhibit 1, Sections 1, 2 and 5, UGI Gas Exhibit 2, UGI Gas St. No. 2, Written Direct Testimony of Jesse R. Tyahla, Director – Energy Supply and Planning.
- g) Calculation of 2023 PGC Rates:
 - i) UGI Gas Exhibit 2, Schedule A – Computation of Purchased Gas Cost Rate effective December 1, 2024;
 - ii) UGI Gas Exhibit 2, Schedule B (page 1) – Development of Projected Cost of Gas (C-factor);
 - iii) UGI Gas Exhibit 2, Schedule B (pages 2-13) – Projected Supply Volumes, Rates, Costs April 2024 through November 2025;
 - iv) UGI Gas Exhibit 2, Schedule C – Development of Experienced Cost of Gas (E-factor);

v) UGI Gas Exhibit 2, UGI Gas St. No. 1, Written Direct Testimony of Kimberly M. Bassininsky, Principal Analyst – Rates.

h) Reliability (66 Pa. C.S. §1317(c)): UGI Gas Exhibit 1, Section 14, and UGI Gas Exhibit 2, UGI Gas St. No. 2, Written Direct Testimony of Jesse R. Tyahla, Director – Energy Supply and Planning.

B. PROJECTED PERIOD FINDINGS

38. With respect to the 12-month period beginning December 1, 2024, the period of time during which the proposed rates would be in effect, the Joint Petitioners agree and request the Commission find that UGI Gas has satisfied each of the standards for a least cost procurement policy set forth in Section 1318 of the Public Utility Code, including the standards set forth in Sections 1318(a)(1)-(4) and 1318(b)(1)-(3), based upon the evidence of record in this proceeding. Nevertheless, it is expressly understood and agreed that such findings, relating to the rates to become effective December 1, 2024, are made solely for the purpose of setting prospective rates and shall be subject to further review in an appropriate future proceeding. This Section of the Settlement, Section III.B, is not intended to limit or prevent any party from challenging projected gas purchases that actually have been made, including those made during the interim period of April 1, 2024, through November 30, 2024, and future gas purchasing practices that have been implemented, or from reviewing whether these gas purchases and gas purchasing practices have, in fact, complied with the standards of Section 1318, except as provided in Section II above.

39. If in an appropriate future proceeding gas purchases and gas purchasing practices relating to the period December 1, 2024, through November 30, 2025, are challenged, the Commission’s findings made pursuant to Section III.B of this Settlement shall pose no bar to the examination of such purchases and practices including, but not limited to, disallowance of or

reductions to, such costs during the one-year period commencing December 1, 2024, except as provided in Section II above.

40. The Joint Petitioners also agree that future examination of the gas costs relating to the period April 1, 2024, through November 30, 2024, to determine whether UGI Gas's experienced and projected gas purchases and gas purchasing practices complied with the standards set forth in Section 1318 of the Public Utility Code, 66 Pa. C.S. § 1318, shall be permitted and that the Commission's adoption of the findings under Section III.B of this Settlement shall not be construed to limit or prevent any disallowance or reduction of such costs, except as provided in Section II above.

IV. GENERAL PROVISIONS

41. This Settlement is conditioned upon the Commission's approval of the terms and conditions contained herein without modification, addition or deletion. If the Commission modifies the Settlement or fails to approve, by December 1, 2024, the terms and conditions of this Settlement, then any of the Joint Petitioners may elect to withdraw from this Settlement and may proceed with litigation. In such event, this Settlement shall be void and of no effect. Such election to withdraw must be made in writing, filed with the Secretary of the Commission and served upon all Joint Petitioners within five (5) business days after the entry of an order modifying or disapproving the Settlement.

42. If the Commission modifies or does not approve this Settlement and the proceeding continues to a hearing on the issues that are the subjects of this Settlement, the Joint Petitioners reserve their respective rights to present additional testimony and to conduct full cross-examination, briefing and argument on these subjects.

43. If the ALJs approve this Settlement without modification, the Joint Petitioners waive their rights to file exceptions.

44. Except as otherwise specifically provided in this Settlement, this Settlement is proposed by the Joint Petitioners to settle all issues in the instant proceeding and is made without any admission against, or prejudice to: (1) any position that any party may adopt during any subsequent litigation of this proceeding if the Commission disapproves or modifies this Settlement; or (2) any position that any party may adopt in any other proceeding.

45. It is understood and agreed among the Joint Petitioners that this Settlement is the result of compromises by all Joint Petitioners and does not necessarily represent the position(s) that would be advanced by any party in the event this proceeding were to be litigated fully.

46. This Settlement is being presented only in the context of this Section 1307(f) proceeding in an effort to resolve certain outstanding issues in a manner that is fair and reasonable. Except as otherwise specifically provided in this Settlement, the Settlement reflects compromises on all sides and is presented without prejudice to any position that any of the Joint Petitioners may have advanced and without prejudice to the positions that any of the Joint Petitioners may advance in the future on the merits of the issues.

47. The Joint Petitioners acknowledge and agree that this Settlement shall have the same force and effect as if the Joint Petitioners had fully litigated this proceeding with regard to the historic period that ended on March 31, 2024.

48. This Settlement may be executed in counterparts.

V. CONCLUSION

WHEREFORE, the Joint Petitioners, by their respective counsel, respectfully request as follows:

1. That Administrative Law Judges Dennis J. Buckley and Alphonso Arnold III and the Commission approve this Settlement, including all terms and conditions thereof;

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

3. That the Commission enter a Final Order consistent with this Settlement that: (a) finds that there is sufficient evidence in the record for this Commission to make the findings referenced in Sections III.A and III.B of this Settlement; and (b) sets forth the findings referenced in Sections III.A and III.B of this Settlement;

4. That the Commission enter a Final Order, consistent with this Settlement: (a) approving the proposed rates effective December 1, 2024, as modified to reflect updates and tariff modifications traditionally performed as part of UGI Gas's December 1 PGC compliance filing; and (b) directing UGI Gas to file a final tariff implementing such rates for gas service rendered by UGI Gas on and after December 1, 2024; and

5. That the Commission mark closed its inquiry and investigation at Docket Nos. R-2024-3048828, C-2024-3049086, C-2024-3049499, C-2024-3049100, C-2024-3049239, C-2024-3049558, C-2024-3049667, C-2024-3049789, and C-2024-3049790.

Respectfully submitted,



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Attorney for Bureau of Investigation & Enforcement

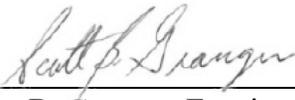
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Date: August 12, 2024

Attorney for Bureau of Investigation & Enforcement

/s/ Emily Farren

Date: August 14, 2024

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Counsel for the Office of Consumer Advocate

Appendix A

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket Nos. R-2024-3048828, <i>et al.</i>
	:	
UGI Utilities, Inc. – Gas Division	:	
1307(f) Proceeding	:	

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

TO ADMINISTRATIVE LAW JUDGES DENNIS J. BUCKLEY AND ALPHONSO ARNOLD III:

UGI Utilities, Inc. – Gas Division (“UGI Gas” or the “Company”) hereby submits this Statement in Support of the Joint Petition for Settlement of Section 1307(f) Rate Investigation (“Settlement”) entered into by UGI Gas, the Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), and the Office of Consumer Advocate (“OCA”)¹ (hereinafter collectively referred to as the “Joint Petitioners”). UGI Gas believes that the Settlement is in the best interests of the Company, its customers, and the parties to the above-captioned proceeding and, therefore, is in the public interest and should be approved.

The Settlement was achieved only after a comprehensive investigation of the Company’s gas procurement practices. UGI Gas responded to numerous formal discovery requests. The Joint Petitioners also submitted multiple rounds of testimony, including the direct testimony of UGI Gas, the direct testimony of OCA and I&E, the rebuttal testimony of UGI Gas, and the surrebuttal testimony of I&E and OCA, and the rejoinder testimony of UGI Gas. In addition, the Joint

¹ The Office of Small Business Advocate (“OSBA”) has indicated that it will not oppose the Settlement.

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

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

I. SETTLEMENT TERMS

A. DESIGN DAY

The Company's methodology for developing the firm peak-day demand and its associated capacity needs is fully described in Section III of the direct testimony of Jesse R. Tyahla, UGI Gas St. No. 2. In its direct testimony, UGI Gas projected a firm peak-day demand and reserve requirement of 2.323 BCF. (UGI Gas St. No. 2, pp. 4-5.) This peak-day demand reflects 2.264 BCF of design-cold firm requirements and 0.059 BCF of capacity reserve requirements. (UGI Gas St. No. 2, p. 5.)

No party challenged UGI Gas's design day needs as identified by the Company. In Settlement, the Joint Petitioners agreed to adopt the Company's projected design day figure as identified in the Company's direct testimony. (Settlement ¶ 24.) Adopting UGI Gas's projected design day figure, which was unopposed by the parties to this proceeding, is in the public interest because it provides the Company with the capacity needed to respond to the needs of its core market customers on peak winter days in accordance with its obligations as the supplier of last resort. The design day figure agreed to by the Joint Petitioners is necessary for UGI Gas to ensure reliable service under design day conditions. (UGI Gas St. No. 2, pp. 5-7.) The Company's projected design day figure also accounts for the experienced growth of UGI Gas's core market customers, which UGI Gas anticipates will continue. If the Company did not include this expected customer growth, it would put the Company at risk of underestimating peak day demand. (UGI

Gas St. No. 2, pp. 7-8.) Therefore, this Settlement term is reasonable and in the public interest and should be approved.

B. PEAK DAY CAPACITY SUPPLY ADDITIONS

In its direct testimony, UGI Gas described its analysis to determine peak day capacity and any identified capacity shortfalls for the upcoming winter. (UGI Gas St. No. 2, pp. 6-9, 24-25.) To address the shortfall identified by the Company’s analysis, UGI Gas issued Requests for Proposals (“RFPs”). (UGI Gas St. No. 2, pp. 15, 21, 25.) As a result of the RFPs, UGI Gas requested approval for two winning bids. The first accepted bid, from Supplier A, will provide 8,394 Dth/day of delivered supply on Tennessee Gas Pipeline Company, L.L.C. (“Tennessee”) for a five-year period beginning on December 1, 2024. (UGI Gas St. No. 2, p. 21.) The second accepted bid, from Supplier B, will provide up to 10,000 Dth/day in Liquefied Natural Gas (“LNG”) supply and pressure support for the Uniondale 282 system. (UGI Gas St. No. 2, p. 25.) This pressure support will address the reliability concerns for the upcoming winter 2024-2025 period. (UGI Gas St. No. 2, p. 25.)

No party disputed the need for additional peak day capacity for the upcoming winter, nor did they challenge UGI Gas’s request to include the winning bids in its supply portfolio. As a result, the Settlement provides that UGI Gas will accept the two winning bids and include the capacity in its supply portfolio. (Settlement ¶ 26.) It is in the public interest for UGI Gas to include the proposed capacity in its supply portfolio because the capacity is needed to satisfy the projected shortfall for the 2024-2025 winter and provides a long-term capacity solution that will be needed in future years. (UGI Gas St. No. 2, pp. 20-21.) The requested additions to UGI Gas’s supply portfolio will enable UGI Gas to continue providing reliable service through the 2024-2025 winter by addressing the projected capacity shortfall and secures a lower cost long-term option that will become available after the 2024-2025 winter to serve the same capacity needs in years beyond the

upcoming winter. Therefore, the Settlement term is reasonable and in the public interest and should be approved.

C. STORAGE CAPACITY ADDITION

Eastern Gas Transmission and Storage (“EGTS”) issued an Open Season on November 20, 2023, with bids due by December 15, 2023. (UGI Gas St. No. 2, p. 27.) The Open Season sought bidders for GSS storage and FT-GSS transportation capacity. (UGI Gas St. No. 2, p. 27.) The Open Season had an anticipated storage capacity of 3,400,000 Dth with 56,667 Dth per day of deliverability to UGI Gas’s gate stations through the Company’s upstream capacity on Texas Eastern Transmission, LP (“Texas Eastern”) and Tennessee. (UGI Gas St. No. 2, p. 27.) UGI Gas noted that firm storage capacity with deliverability to UGI Gas has rarely been available in recent years. (UGI Gas St. No. 2, p. 27.) UGI Gas reviewed the Open Season and recognized the benefit of the storage capacity for additional price savings and stability for customers as well as the operational reliability provided by pipeline storage. (UGI Gas St. No. 2, p. 27.) UGI Gas submitted a bid for a term of 21 years, at max EGTS GSS and FT-GSS rates, for an annual cost of \$4,557,227.62. (UGI Gas St. No. 2, p. 27.) Based on UGI Gas’s projection over the next three years, done in advance of its bid on the Open Season, the Company estimated customer savings to be approximately \$600,000 annually. (UGI Gas St. No. 2, p. 27.) To achieve additional cost benefits for customers, the Company plans to review an Asset Management structure for this storage, to be effective within the next year. (UGI Gas St. No. 2, p. 27.)

No parties addressed the ETGS Open Season in their testimony. Under the Settlement, UGI Gas shall be permitted recovery of costs related to the firm storage capacity EGTS Open Season for 56,667 Dth per day of deliverability through the Company’s upstream capacity on Texas Eastern and Tennessee and with a term of 21 years (as detailed in UGI Gas St. No. 2, pp. 27-28). The firm storage capacity to UGI Gas, which has rarely been available in recent years,

will provide additional price savings and stability for customers as well as operational reliability. (UGI Gas St. No. 2, p. 27.) Therefore, this Settlement term is reasonable and in the public interest and should be approved without modification.

D. LONG-TERM PEAK CAPACITY SHORTFALL PLANNING

UGI Gas proposed to use the fifth year of its five-year peak day demand forecast shortfall of 48,525 Dth to establish a capacity target and optimal step-up capacity targets for intermediate years. (UGI Gas St. No. 2, p. 11.) Consistent with the Company's current approach to capacity planning, UGI Gas averred that this five-year outlook would be incorporated into annual RFP processes and refreshed every year. (UGI Gas St. No. 2, p. 11.) UGI Gas would still present any capacity contracts arranged using the five-year forecasted shortfall for review and approval in a future PGC proceeding. (UGI Gas St. No. 2, p. 11.)

No parties challenged the Company's long-term peak capacity shortfall planning in their testimony. The Settlement provides that the Company will implement a 5-year capacity shortfall plan to establish a capacity target and optimal step-up capacity targets for intermediate years, consistent with the Company's proposal set forth in its direct testimony. (Settlement ¶ 29.) This 5-year plan will be incorporated into annual RFP processes and refreshed each year. (Settlement ¶ 29.) UGI Gas will present any resulting capacity contracts for review and approval in a future PGC proceeding. (Settlement ¶ 29.) UGI Gas maintains that this five-year plan approach will obtain more options to address long-term capacity needs. (UGI Gas St. No. 2, p. 11.) Thus, this Settlement term is reasonable and in the public interest and should be approved without modification.

E. PEAKING CONTRACT RFP MODIFICATION

For peaking supplies, the Company requires prospective bidders of RFPs to submit bids that include payment terms from November through March and from December through March,

in accordance with settlement terms from the 2021 PGC proceeding at Docket No. R-2021-3025652 and the 2020 PGC proceeding at Docket No. R-2020-3019680. (UGI Gas St. No. 2, p. 17.) For example, the Company requested payment terms of December through March and November through March in its April 2024 Capacity Shortfall RFP. (UGI Gas St. No. 2, p. 17.) Further, since the settlement approved in the 2021 PGC proceeding, the Company has been conducting a three-year pilot regarding the format of its peaking contract RFPs, which must clearly state that bids must include payment terms over both a four-month (December to March) and five-month (November to March) period. (UGI Gas St. No. 3-R, pp. 2-3.)

I&E witness Mr. Keller noted his continued disagreement with including the November payment for peaking contracts. (I&E St. No. 1, p. 7.) However, he was “not making a related recommendation in this proceeding because the parties agreed to the three-year study in the 2021 settlement.” (I&E St. No. 1, p. 7.) Therefore, while I&E accepted the 2021 PGC Settlement, such acceptance “does not constitute agreement regarding how the Company spreads the payments for its peaking contracts.” (I&E St. No. 1, p. 8.)

In rebuttal, although I&E was not making any recommendations related to contract changes in this proceeding, UGI Gas witness Ms. Hazenstab argued that I&E’s position could increase the interest paid by PGC customers by moving the payment to months with higher interest weighting. (UGI Gas St. No. 3-R, p. 4.) Peaking service providers do not always provide payment terms over a 4-month period (from December – March). (UGI Gas St. No. 3-R, p. 4.) Additionally, the aggregate cost of demand charges for a 4-month payment term may be incrementally higher than a 5-month payment term, offsetting any savings advocated by Mr. Keller. (UGI Gas St. No. 3-R, p. 4.) I&E’s position would cause the “C-Factor” component of the December PGC Rate to increase by the identical amount of the moved payment, because these payments would occur

during the C-Factor calculation period (in this case, the period from December 2024 – November 2025). (UGI Gas St. No. 3-R, p. 4.) I&E’s method simply moves a portion of the costs from one part of the PGC (the E-Factor) to another (the C-Factor), while increasing interest costs. (UGI Gas St. No. 3-R, p. 4.) Also, the Company cannot unilaterally modify the payment terms on its existing peaking contracts with November payments. (UGI Gas St. No. 3-R, p. 4.)

I&E witness Mr. Keller disagreed with the Company’s position in his surrebuttal testimony but reiterated that he was not making any related recommendation in this proceeding because the parties agreed to the three-year study in the 2021 PGC settlement. (I&E St. No. 1-SR, pp. 2-6.) In rejoinder, UGI Gas witness Hazenstab stated that because Mr. Keller did not make any recommendations in this case, any concerns can be appropriately addressed in future proceedings. (UGI Gas St. No. 3-RJ, p. 1.)

The Settlement represents a reasonable compromise of the parties’ positions on these issues. Under the Settlement, UGI Gas will continue to use the RFP format as agreed to in the 2023 PGC Settlement at Docket No. R-2023-3040290 on a prospective basis. (Settlement ¶ 30.) The Company’s bid form will request that suppliers provide bids based on (a) payment terms that exclude a November payment and (b) payment terms that include a November payment. (Settlement ¶ 30.) The Company will evaluate RFP responses in a manner, which is inclusive of projected PGC over/under collection and PGC interest impacts with regard to fixed charges in live Excel format. (Settlement ¶ 30.) The Company will make the RFP responses available in future PGC proceedings to the statutory Parties. (Settlement ¶ 30.) The Company will make a recommendation in its 2025 PGC proceeding based on the results of the three-year pilot study, as required under the 2021 PGC Settlement approved at Docket No. R-2021-3025652. (Settlement ¶ 30.) Therefore, the Settlement maintains the three-year pilot study of the peaking contract RFP

modification and ensures that this issue can be more thoroughly addressed in the 2025 PGC proceeding. Based on the foregoing, these Settlement terms are reasonable and in the public interest and should be approved without modification.

F. HEDGE PLAN TRIGGER STUDY RECOMMENDATIONS

In its direct testimony, UGI Gas explained how it undertook a review of its hedging policy as required by the Commission-approved Settlement of the Company's 2022 PGC case.² (UGI Gas St. No. 2, p. 35.) As a result of that study and presented in its 2023 PGC case, UGI Gas agreed to do a further investigation into price-trigger driven hedge activities and agreed to report in the 2024 PGC proceeding on whether UGI Gas should incorporate that element into the Company's hedging policy. (UGI Gas St. No. 2, p. 35.) The two main recommendations about incorporating triggers into UGI Gas's hedging program were: (1) change the strategy of the current hedge program from an even distribution of monthly hedge purchases to a plan that is flexible and has "trigger hedge" amounts that are more heavily weighted towards months where the futures prices have historically been lower than other purchasing months; and (2) revise the current schedule for hedge purchases from fixed days on a weekly basis to a market data-driven and informed, analytical determination of the most effective days within each month to purchase hedge positions. (UGI Gas St. No. 2, pp. 36-37.)

The study provided recommendations that will likely improve the overall hedge program's performance and increase the likelihood of making hedging purchases at a lower cost over time as compared to the Company's existing programmatic approach. (UGI Gas St. No. 2, p. 37.) More specifically, a study determined how UGI Gas's original hedge purchases over three historical years (2020-2022) would have been impacted, had the Company implemented the

² See *Pa. PUC v. UGI Utilities, Inc. – Gas Division*, Docket Nos. R-2022-3032242, *et al.* (Order entered Sept. 9, 2022).

recommendations supported by the study. (UGI Gas St. No. 2, p. 37.) This analysis found that in the historical test years, UGI Gas would have realized nearly \$5,000,000 in possible savings in two of the three years. (UGI Gas St. No. 2, p. 37; UGI Gas Exhibit JRT-6, p. 14 (CONFIDENTIAL).) As such, UGI Gas proposed to adopt these recommendations in a pilot program that will run in conjunction with the remaining years of the five-year hedging review period established in the settlement of the 2023 PGC proceeding at Docket No. R-2023-3040290. (UGI Gas St. No. 2, p. 37.) Specifically, UGI Gas would report on the performance of a portfolio using trigger hedges in its overall evaluation of the hedging plan to be presented in the Company's 2028 PGC proceeding. (UGI Gas St. No. 2, p. 37.)

No parties addressed these issues in their testimony. Under the Settlement, the Company will implement the recommendations provided in Gelber & Associates' Trigger Price Study ("Study"), conducted per the 2023 PGC Settlement (Docket No. R-2023-3040290) by way of a 4-year pilot commencing on January 1, 2025. The recommendations from the Study, described on pages 36-37 of UGI Gas St. No. 2, include:

- a. Change the strategy of the current hedge program from an even distribution of monthly hedge purchases to a plan that is flexible and has "trigger hedge" amounts that are more heavily weighted towards months where the futures prices have historically been lower than other purchasing months; and
- b. Revise the current schedule for hedge purchases from fixed days on a weekly basis to a market data-driven and informed, analytical determination of the most effective days within each month to purchase hedge positions.

(Settlement ¶ 31.)

Further, during the pilot, UGI Gas will compare the actual cost of the hedging activities set forth in the Study's recommendations against the performance that would have otherwise occurred under the Company's existing programmatic approach to hedging purchases. (Settlement ¶ 32.) UGI Gas also will hire a consultant, through an RFP process, to implement these recommendations and collect and analyze the data needed to compare the pilot against UGI Gas's programmatic methodology. (Settlement ¶ 33.) The Company will recover these consultant costs, related to implementing the recommendations of the Study, as well as analyzing and comparing the pilot data to UGI Gas's programmatic hedging approach in PGC rates. (Settlement ¶ 33.) For the reasons explained herein and in the testimony of UGI Gas witness Mr. Tyahla (UGI Gas St. No. 2), these Settlement terms are reasonable and in the public interest and should be approved.

G. QUARTERLY ADJUSTMENT METHODOLOGY

In its direct testimony, I&E observed how under the 2017 PGC Settlement, UGI Gas "may utilize either annual sales or remaining life sales for quarterly filing to determine the PGC rate change and how the Company agreed to continue using the rate caps on quarterly rate changes of 15% for September 1st and 25% for the December 1st, March 1st, and June 1st quarterly filings." (I&E St. No. 1, p. 10.) Although Mr. Keller disagreed "with any proposed use of annual volumes to calculate the PGC rate change beyond the first quarter," he was "not making a related recommendation in this proceeding because the parties agreed to the three-year study in the 2023 settlement." (I&E St. No. 1, p. 10.)

In rebuttal, UGI Gas witness Ms. Hazenstab stated that UGI Gas continues to support the Quarterly Adjustment Mechanism 1 ("QAM 1") approach because QAM 1 does not exclusively use annual sales for quarterly adjustments. (UGI Gas St. No. 3-R, p. 6.) Instead, it allows UGI Gas the flexibility to use either annual sales or remaining life sales, in order to better manage rate stability for its PGC core market customers, for each quarterly filing to determine PGC rate

changes. (UGI Gas St. No. 3-R, p. 6.) Therefore, UGI Gas’s customers experience more stable and less volatile rate adjustments. (UGI Gas St. No. 3-R, p. 6.) Moreover, as I&E witness Mr. Keller was making no recommendation on quarterly rate change mechanism in this proceeding, there were no issues for the Commission to address in this proceeding. (UGI Gas St. No. 3-R, p. 6.)

I&E responded in surrebuttal and disputed the Company’s position on the QAM 1 method. (I&E St. No. 1-SR, pp. 8-10.) However, Mr. Keller confirmed that he was not making any related recommendation in this proceeding due to the parties’ agreement to the three-year study in the 2023 PGC Settlement.

Under the Settlement, the Company will continue the side-by-side analysis of the QAM 1 and Quarterly Adjustment Mechanism 2 (“QAM 2”) methods until the next PGC proceeding. (Settlement ¶ 34.) In the Company’s 2027 PGC filing, it will propose criteria for use in determining when QAM1 and QAM 2 will be used prospectively to calculate the PGC rate change as agreed to in the 2023 PGC Settlement approved at Docket No. R-2023-3040290. (Settlement ¶ 34.) Therefore, the Settlement confirms the process by which the QAM 1 and QAM 2 methods will be studied and evaluated, which should help inform the parties’ and Commission’s positions on those methods in future PGC proceedings. For these reasons, the Settlement terms are in the public interest and should be approved.

H. FERC PARTICIPATION COSTS

UGI Gas proposed that the “costs incurred related to representing its customers’ interests at [Federal Energy Regulatory Commission (“FERC”)] pursuant to Section 1318(a)(1), including costs associated with outside counsel and consultants/expert witnesses, be recovered through the PGC.” (UGI Gas St. No. 2, pp. 32-33.) “These costs would be reflected in the Weight Average Cost of Demand (‘WACOD’) that is charged to transportation and Choice customers, because

these customers also rely on capacity obtained by UGI Gas, the costs of which are impacted in FERC proceedings where UGI Gas represents its customers' interests." (UGI Gas St. No. 2, p. 33.)

OCA witness Mr. Mierzwa opposed the recovery of the FERC participation costs through the PGC. (OCA St. No. 1, pp. 5-7.) Among other reasons, Mr. Mierzwa argued that those costs are already included in base rates, so PGC recovery of such costs would constitute double recovery. (OCA St. No. 1, p. 5.) He also disputed that FERC participation costs can qualify as "natural gas costs" under Section 1307(h) of the Public Utility Code that can be recovered through the PGC. (OCA St. No. 1, pp. 5-6.)

In rebuttal, UGI Gas witness Mr. Tyahla maintained that the FERC participation costs were eligible for PGC recovery as "natural gas costs," given that the Company's vigorous representation of PGC customers' interests before FERC affect the utility's gas costs. (UGI Gas St. No. 2-R, pp. 3-4.) However, the Company recognized Mr. Mierzwa's concern about double recovery and clarified that it did not intend to double recover any of these costs. (UGI Gas St. No. 2-R, p. 2.) To ensure this does not occur, Mr. Tyahla argued that "the Company should be permitted to appropriately time the switching of these specifically-identified costs from base rates to the PGC rate for recovery." (UGI Gas St. No. 2-R, p. 2.) Also, the timing of the switch will "avoid any potential for stranded costs." (UGI Gas St. No. 2-R, p. 2.) "Historically, the Company's base rate changes become effective in an October timeframe, while new PGC rates become effective December 1st." (UGI Gas St. No. 2-R, p. 2.) Thus, Mr. Tyahla stated that "any proposal in the Company's next base rate case to remove the FERC participation costs from base rates and recover them in PGC rates could result in a 2-month gap where UGI Gas would not recover those costs unless timing is first addressed in a PGC proceeding." (UGI Gas St. No. 2-R, p. 2.)

In subsequent rounds of testimony, the OCA and UGI Gas maintained their respective positions concerning the recoverability of FERC participation costs through the PGC. (OCA St. No. 1-SR, pp. 1-4; UGI Gas St. No. 2-RJ, pp. 1-3.) However, OCA witness Mr. Mierzwa noted that “since UGI has withdrawn its initial proposal concerning the recovery of FERC participation costs through PGC rates in this proceeding, it is unnecessary to further litigate UGI[’s] initial proposal in this proceeding.” (OCA St. No. 1-SR, p. 2.)

Under the Settlement, the Company has agreed to withdraw its proposal for recovery of FERC participation costs through PGC rates without prejudice and has specifically reserved its right to make additional proposals relating to recovery of FERC participation costs in future rate case and subsequent PGC proceedings, regarding unbundling these costs from base rates and moving them into PGC rates, respectively. (Settlement ¶ 35.) All parties reserve their respective rights to address any such proposal in any future base rate or subsequent PGC proceeding. (Settlement ¶ 35.) These provisions are reasonable and in the public interest. As noted above, the parties disputed whether the issue of FERC participation costs’ recovery through the PGC should be raised in a base rate proceeding, PGC case, or both. The parties have reserved their rights to address any such proposal in a future base rate or PGC proceeding, while also achieving a full settlement on the other issues that were litigated in this proceeding. Thus, on balance, the Settlement as a whole is reasonable and in the public interest and should be approved without modification.

II. CONCLUSION

As explained above, the Settlement is reasonable and in the public interest and should be approved. The Settlement was achieved only after considerable investigation of the Company's gas procurement practices, through both discovery and the submission of testimony. The Settlement, if approved by the Administrative Law Judges and the Commission, will reduce the amount of expense and effort that will be required by the parties and the Commission to bring this matter to a conclusion, including preparation for and participation in hearings, preparation of briefs, reply briefs, exceptions, and replies to exceptions.

UGI Gas also requests that the required statutory findings be made in this proceeding. These statutory findings are appropriate and are amply supported by the Settlement, UGI Gas's pre-filing information (UGI Gas Exhibit 1), UGI Gas's definitive PGC filing (UGI Gas Exhibit 2), and UGI Gas's testimony in this proceeding.

The Settlement is the result of compromise. To the extent that a term of the Settlement resolved a disputed issue amongst the parties, it did so fairly and without the expense and uncertainty associated with litigation. UGI Gas accordingly fully supports the Settlement and respectfully requests that Administrative Law Judges Dennis J. Buckley and Alphonso Arnold III and the Commission approve the Settlement without modification.

Respectfully submitted,



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Dated: August 14, 2024

Counsel for UGI Utilities, Inc. – Gas Division

Appendix B

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2024-3048828
	:	
UGI Utilities, Inc. - Gas Division	:	
1307(f) Purchased Gas Costs	:	

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

**TO: ADMINISTRATIVE LAW JUDGES DENNIS J. BUCKLEY AND
ALPHONSO ARNOLD, III:**

The Bureau of Investigation and Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), by and through Prosecutor Scott B. Granger, hereby respectfully submits that the terms and conditions of the foregoing Joint Petition for Settlement of Section 1307(f) Rate Investigation (“Joint Petition” or “Settlement”) are in the public interest and represent a fair, just, and reasonable balance of the interests of UGI Utilities, Inc. - Gas Division (“UGI Gas” “UGI” or “Company”), I&E, the Office of Consumer Advocate (“OCA”), the Office of Small Business Advocate (“OSBA”) (parties in the above-captioned proceeding and hereinafter collectively referred to as the “Parties”), and the UGI Gas customers.

I. BACKGROUND

I&E is charged with representing the public interest in Commission proceedings related to rates, rate-related services, and applications affecting the public interest. In negotiated settlements, it is incumbent upon I&E to identify how amicable resolution of any such proceeding benefits the public interest and to ensure that the public interest is served. Based upon I&E's analysis of UGI's 2024 Section 1307(f) purchased gas costs ("PGC") filing, acceptance of this proposed Settlement is in the public interest and I&E recommends that Administrative Law Judges Dennis J. Buckley and Alphonso Arnold, III ("the ALJs") and the Commission approve the Settlement in its entirety.

1. In September of 2018, UGI Gas received Commission approval to merge its three natural gas distribution companies ("NGDCs") into one NGDC, UGI Utilities, Inc. – Gas Division.¹

2. On May 1, 2024, pursuant to 52 Pa. Code Sections 53.64 and 53.65 of the Commission's Rules and Regulations and Section 1307² of the Public Utility Code, UGI Gas submitted its pre-filing information in support of its annual reconciliation of its purchased gas cost ("2024 UGI PGC Book 1") tariffs.

3. On May 3, 2024, the OSBA filed its Notice of Appearance and Public Statement.

4. On May 17, 2024, the OCA filed a Notice of Appearance, a Formal Complaint, and a Public Statements.

¹ *Joint Application of UGI Utilities, Inc.; UGI Penn Natural Gas, Inc.; and UGI Central Penn Gas, Inc.*, Docket Nos. A-2018-3000381-30000382-30000383 (Order Entered Sept. 20, 2018).

² 66 Pa. C.S. § 1307(f).

5. On May 31, 2024, pursuant to 66 Pa. C.S. Section 1307(f) and 52 Pa. Code Section 53.64(a), UGI Gas submitted its definitive PGC filing (“2024 UGI PGC Book 2”) to the Commission, which included UGI’s proposed *Pro Forma* Tariff Addendums setting the proposed PGC rate at \$5.4483 per Mcf effective December 1, 2024, along with its supporting written direct testimony and exhibits.

6. On June 4, 2024, I&E filed its Notice of Appearance.

7. Several UGI Gas ratepayers filed Formal Complaints to Proposed Rate Increase in this proceeding.

8. On June 14, 2024, the ALJs presided over a telephonic prehearing conference, during which the Parties agreed to a schedule for the conduct of the case including the service of testimony among the parties and the dates for evidentiary hearings. As no evidence of the need for public input hearings was presented nor a request for one made, none was scheduled or held.

9. All of the Parties undertook thorough discovery in this proceeding. I&E commenced discovery shortly after the filing was made and continued to conduct discovery throughout the proceeding.

10. In accordance with the procedural schedule established at the prehearing conference, I&E served to all active parties the following two (2) pieces of testimony and one (1) accompanying exhibit from one (1) I&E witness addressing the subjects of C-factor quarterly adjustments; E-factor reconciliation; and quarterly PGC rate changes:

- I&E Statement No. 1 (PROPRIETARY and Non-Proprietary) and I&E Exhibit No. 1 (PROPRIETARY and Non-Proprietary), the Direct Testimony and supporting Exhibit of Christopher Keller.

- I&E Statement No. 1-SR and I&E Exhibit No. 1-SR, the Surrebuttal Testimony and supporting Exhibit of Christopher Keller.

11. In accordance with Commission policy favoring settlements at 52 Pa. Code § 5.231, I&E participated in multiple telephonic settlement discussions with the Company and the other Parties to the proceeding. Following extensive settlement negotiations and recognizing that a settlement is the result of compromises made by all Parties, the Parties in this proceeding reached a full and complete Settlement of all issues.

12. The evidentiary hearing, which was scheduled for July 25, 2024, was cancelled and the Parties agreed to waive cross examination for all witnesses and submit the written testimony into the record by joint stipulation and signed verifications of the sponsoring witnesses.

II. TERMS AND CONDITIONS OF SETTLEMENT

13. “The prime determinant in the consideration of a proposed Settlement is whether the settlement is in the public interest.”³ The Commission has recognized that a settlement “reflects a compromise of the positions held by the parties of interest, which, arguably fosters and promotes the public interest.”⁴

14. I&E submits that the Settlement in the instant proceeding balances the interests of the Company, its customers, and the Parties in a fair and equitable manner and presents a resolution for the Commission’s adoption that best serves the public interest. Furthermore, the negotiated Settlement demonstrates that compromises are evident throughout the Stipulation. Accordingly, for the specific reasons articulated

³ *Pennsylvania Public Utility Commission v. Philadelphia Electric Company*, 60 PA PUC 1, 22 (1985).

⁴ *Pennsylvania Public Utility Commission v. C S Water and Sewer Associates*, 74 PA PUC 767, 771 (1991).

below to achieve the full scope of benefits addressed in the Settlement, I&E requests that the Settlement be recommended by the ALJs and approved by the Commission, without modification.

A. Design Day (Joint Petition ¶ 24).

In the Settlement, UGI and the Parties agree the Company will be permitted to use a design day figure of 2.32 BCF, which includes 2.26 BCF of design cold firm requirements and 0.06 BCF of capacity reserves for the Company's firm core market needs.

UGI Gas witness Jesse Tyahla detailed the Company's calculation of the Company's projected firm peak-day demand, inclusive of reserve requirement, for the upcoming 2024-2025 winter season.⁵ Briefly, UGI Gas explained that it "plans to meet the anticipated peak day demand of its Core Market customers and firm transportation customers during the 2024-2025 winter using the design-cold temperatures that were approved as part of the Company's prior PGC case settlements at Docket Nos. R-00072335, R-00072334, and R-2009-2105909 for the former South, North, and Central Rate Districts, respectively."⁶

I&E did not submit testimony regarding the design day and firm peak day demand. I&E technical staff did, however, analyze the Company's as-filed design day proposal and the supporting testimony. After a complete review of the testimony and exhibits submitted by the Parties; and after negotiations between and among the Parties; I&E

⁵ UGI St. No. 2, pp. 5-11.

⁶ *Id.*, p. 6.

supports this settled upon term as it provides regulatory certainty and a resolution of this issue, all of which facilitates the Commission's stated preference favoring negotiated settlements as in the public interest.

B. Peak Day Capacity Supply Additions (Joint Petition ¶¶ 25-27).

In the Settlement, UGI and the Parties agree, in order to address its total capacity supply shortfall needs, UGI Gas will accept two proposals. The first accepted proposal, from Supplier A, will provide 8,394 dth/day for the 2024-2029 term with delivery on Tennessee. The second accepted proposal, from Supplier B, will provide a capacity release Asset Management Agreement ("AMA") for 10,000 Dth/day in LNG supply and pressure support for the Uniondale 282 system to address reliability concerns for the 2024-2026 term.

Again, UGI witness Jesse Tyahla detailed the Company's position regarding its capacity supply shortfall contracts and capacity release Asset Management Agreements.⁷ Briefly, the UGI witness noted UGI Gas reviews its peak day needs based on anticipated design cold conditions and where the Company identifies a shortfall, it then seeks firm supply to address that shortfall.⁸ UGI maintains, as UGI Gas has seen significant customer growth year over year, additional peak supply is needed.⁹

Regarding asset management, UGI proffered an AMA is a contractual relationship through which a party consents to manage delivery arrangements, including supply, as

⁷ UGI St. No. 2, pp. 20-26.

⁸ *Id.*, p. 20.

⁹ *Id.*

well as the transportation of gas, for another party.¹⁰ In an AMA, the owner of firm interstate pipeline capacity or storage assets releases its capacity to the asset manager. By entering into an AMA, the owner of the capacity receives an administrative fee while still benefitting from the ability to call on the operational capabilities of the capacity to fulfill system supply requirements.¹¹ UGI noted further, under UGI Gas's incentive sharing mechanism, the administrative fee paid by an asset manager to UGI Gas is shared with PGC customers.¹² Specifically, 75% of the fee is credited to the PGC and 25% is retained by UGI Gas.¹³ As a result of UGI Gas securing an asset manager for its capacity, PGC customers will experience reduced PGC costs versus what would otherwise have been experienced without the AMA.¹⁴

I&E did not submit testimony regarding the Company's capacity supply shortfall contracts and capacity release asset management agreements. I&E technical staff did, however, fully analyze the Company's proposal as discussed by UGI witness Tyahla. And, after a complete review of all testimony and supporting exhibits submitted by the Parties, I&E supports this settled upon term as it provides regulatory certainty and a resolution of this issue; all of which facilitates the Commission's stated preference favoring negotiated settlements as in the public interest.

¹⁰ *Id.*, p. 22.

¹¹ *Id.*

¹² *Id.*

¹³ *Id.*

¹⁴ *Id.*

C. Storage Capacity Addition (Joint Petition ¶ 28).

In the Settlement, the parties agreed that UGI Gas shall be permitted recovery of costs related to the firm storage capacity EGTS Open Season for 56,667 Dth per day of deliverability through the Company's upstream capacity on Texas Eastern and Tennessee and with a term of 21 years.

Again, UGI witness, Jesse Tyahla, detailed the Company's position regarding the available Open Season capacity offer issued by EGTS.¹⁵ Ultimately, EGTS accepted UGI's bid in the Open Season and finalized the contract for the storage and transportation capacity beginning April 1, 2024.¹⁶

I&E did not submit testimony regarding the Company's storage capacity agreement. I&E technical staff did, however, fully analyze the Company's proposal as discussed by UGI witness Tyahla. And, after a complete review of all testimony and supporting exhibits submitted by the Parties, I&E supports this settled upon term as it provides regulatory certainty and a resolution of this issue; all of which facilitates the Commission's stated preference favoring negotiated settlements as in the public interest.

D. Long-Term Peak Capacity Shortfall Planning (Joint Petition ¶ 29).

In the Settlement, the parties agree the Company will implement a 5-year capacity shortfall plan to establish a capacity target and optimal step-up capacity targets for intermediate years.¹⁷ This 5-year plan will be incorporated into annual Requests for

¹⁵ UGI St. No. 2, pp. 27-28.

¹⁶ *Id.*, p. 28.

¹⁷ *See* UGI St. No. 2, pp. 8-11. *See also* UGI St. No. 2, p. 5, Table 1.

Proposal (“RFP”) processes and refreshed each year. UGI Gas will present any resulting capacity contracts for review and approval in a future PGC proceeding.

As explained by UGI witness Tyahla, over the last four years, there have only been two open seasons for firm pipeline capacity issued by pipelines currently interconnected with UGI Gas for projects that would feasibly deliver to the UGI Gas distribution system demonstrating the long timeline associated with securing new interstate pipeline capacity.¹⁸ Therefore, the Company proposed to pursue a Five-Year Plan to anticipate its firm peak day requirements and to use the extended planning horizon to obtain more options to address long-term capacity needs.¹⁹ Consistent with the Company’s current approach to capacity planning, the Company explained this proposed five-year outlook will be incorporated into annual RFP processes and refreshed every year.²⁰

I&E did not submit testimony regarding the Company’s long-term peak capacity shortfall planning. I&E technical staff did, however, fully analyze the Company’s proposal as discussed by UGI witness Tyahla. And, after a complete review of all testimony and supporting exhibits submitted by the Parties, I&E supports this settled upon term as it provides regulatory certainty and a resolution of this issue; all of which facilitates the Commission’s stated preference favoring negotiated settlements as in the public interest.

¹⁸ *Id.*, pp. 8-11.

¹⁹ *Id.*, p. 11.

²⁰ *Id.*

E. Peaking Contract RFP Modifications (Joint Petition ¶ 30).

In the Settlement, the parties agreed that the Company will continue to use the RFP format as agreed to in the 2023 PGC Settlement at Docket No. R-2023-3040290 on a prospective basis. The Company's bid form will request that suppliers provide bids based on (a) payment terms that exclude a November payment and (b) payment terms that include a November payment. Further, the Company will make the RFP responses available in future PGC proceedings to the statutory Parties. The Company will make a recommendation in its 2025 PGC proceeding based on the results of the three-year pilot study.

I&E noted that as part of the settlement agreement in the 2021 1307(f) proceeding, I&E agreed the Company was to provide a modified RFP based on the inclusion of the November peaking contract payment and without the November peaking contract payment.²¹ Therefore, this term is included in this year's settlement to reiterate that the Company is still proceeding with the agreed upon three-year pilot regarding the format of its peaking contract RFPs. I&E supports this settled upon term as it continues to reflect the amicable agreement of the parties in a past settlement, all of which facilitates the Commission's stated preference favoring negotiated settlements as in the public interest.

F. Hedge Plan Trigger Study Recommendations (Joint Petition ¶¶ 31-33).

In the Settlement, the parties agree that UGI Gas will implement the recommendations provided in Gelber & Associates' Trigger Price Study ("Study"),

²¹ I&E St. No. 1 PROPRIETARY, pp. 5-8.

conducted per the 2023 PGC Settlement (Docket No. R-2023-3040290) by way of a 4-year pilot commencing on January 1, 2025. The recommendations from the Study, as described by UGI witness Tyahla²² include: a change in the strategy of the current hedge program and a revision of the current schedule for hedge purchases. Additionally, during the pilot, UGI Gas will compare the actual cost of the hedging activities set forth in the Study's recommendations against the performance that would have otherwise occurred under the Company's existing programmatic approach to hedging purchases. And, UGI Gas will hire a consultant, through an RFP process, to implement these recommendations and collect and analyze the data needed to compare the pilot against UGI Gas's programmatic methodology.

As noted by UGI witness Tyahla, the Company made certain commitments regarding its hedging program in the 2022 PGC at Docket No. R-2022-3032242.²³ UGI Gas selected Gelber & Associates ("Gelber") as the consultant to complete the hedge study.²⁴ As a result of the study conducted by Gelber and presented in its 2023 PGC, UGI Gas agreed to do a further investigation into price-trigger driven hedge activities and agreed to report in the 2024 PGC on whether UGI Gas should incorporate that element into the Company's hedging policy.²⁵ The study provided the two recommendations agreed to in the Settlement that are predicted to improve the overall hedge program performance and increase the likelihood of making hedging purchases at a lower cost

²² UGI St. No. 2, pp. 36-37.

²³ *Id.*, p. 35.

²⁴ *Id.*

²⁵ *Id.*

over time than the Company's existing programmatic approach.²⁶

I&E did not submit testimony regarding the Company's hedging policy. I&E technical staff did, however, fully analyze the Company's testimony and the Gelber recommendations. After a complete review of all testimony and supporting exhibits submitted, I&E supports this settled upon term as a full and fair compromise that provides regulatory certainty and a resolution of this issue; all of which facilitates the Commission's stated preference favoring negotiated settlements as in the public interest. I&E believes the agreed upon Settlement terms reflect an amicable agreement among the parties.

G. Quarterly Adjustment Methodology (Joint Petition ¶ 34).

In the Settlement, the Parties agree, UGI will continue the side-by-side analysis of the QAM 1 and QAM 2 methods until the next PGC proceeding. In the Company's 2027 PGC filing it will propose criteria for use in determining when QAM 1 and QAM 2 will be used prospectively to calculate the PGC rate change as agreed to in the 2023 PGC Settlement at Docket No. R-2023-3040290.

I&E notes that, as part of the Settlement agreement in the 2023 1307(f) proceeding, I&E agreed to UGI's use of the methodology per the settlement agreement in the 2017 1307(f) proceeding to determine the quarterly PGC rate.²⁷ Further, while I&E agreed to the terms in the 2023 1307(f) Settlement agreement, that does not constitute agreement regarding the current methodology being used.²⁸ But rather, the current

²⁶ *Id.*, p. 37.

²⁷ I&E St. No. 1 PEOPRIETARY, p. 10.

²⁸ *Id.*, p. 11.

methodology is still under evaluation for a three-year period where the results will be reviewed in the 2027 1307(f) proceeding.²⁹

Respecting previous Settlements, I&E supports the settled upon terms as a full and fair compromise that provides regulatory certainty and path towards a resolution of this issue. I&E recognizes that these settlement terms do not necessarily represent the position(s) that would be advanced by I&E or the other Parties in the event this issue were to be fully litigated. The Parties reached this compromise and I&E believes the agreed upon Settlement terms facilitate the Commission's stated preference favoring negotiated settlements as in the public interest.

H. FERC Participation Costs (Joint Petition ¶ 35)

In the Settlement, the Company agreed to withdraw its proposal for recovery of FERC participation costs through its PGC rates without prejudice and specifically reserves its rights to make additional proposals relating to recovery of FERC participation costs in future rate cases and subsequent PGC proceedings, regarding unbundling these costs from base rates and moving them into PGC rates, respectively.

I&E did not submit testimony regarding the Company's FERC participation costs claim. I&E technical staff did, however, fully analyze the Company's testimony and the competing arguments made by the other parties to this proceeding. Further, I&E was actively involved in the settlement negotiations regarding this issue. After extensive negotiations, I&E supports this settled upon term as it provides regulatory certainty

²⁹ *Id.*

which facilitates the Commission's stated preference favoring negotiated settlements as in the public interest. I&E believes the agreed upon Settlement terms reflect an amicable agreement among the parties and a path forward for the future.

III. STANDARDS AND FINDINGS (Joint Petition ¶¶ 36-40).

This proceeding involves Commission review pursuant to Sections 1307 and 1318 of the Public Utility Code. Under Section 1307(f), the Commission must determine what portion of the gas costs UGI Gas may recover for a previous 12-month period under the standards set forth in Section 1318. In addition, the Commission must determine whether the requirements of Section 1318 can be met.

A. Historic Reconciliation Period (Joint Petition ¶ 37).

In the Settlement, with respect to UGI Gas's gas purchases and gas purchasing practices during the 12-month historic reconciliation period ending March 31, 2024, the Joint Petitioners agree that UGI Gas has met the standards set forth in Section 1318 of the Public Utility Code, as required by Section 1307(f)(5) of the Public Utility Code. As a result, the Joint Petitioners request that the Commission find, pursuant to Section 1307(f)(5) of the Public Utility Code, and based upon the evidence presented by the Joint Petitioners in this case, that during the 12-month period ended March 31, 2024, UGI Gas has pursued a least-cost fuel procurement policy, consistent with its obligation to provide safe, adequate and reliable service to its customers, as required by Section 1318 of the Public Utility Code.

I&E technical staff fully analyzed the Company's filing, including all testimony and exhibits. I&E supports this settlement term as it provides regulatory certainty and a

resolution of the issues; all of which facilitates the Commission's stated preference favoring negotiated settlements as in the public interest.

B. Projected Period (Joint Petition ¶¶ 38-40).

In the Settlement, with respect to the 12-month period beginning December 1, 2024, the period of time during which the proposed rates would be in effect, the Joint Petitioners agree and request the Commission find that UGI Gas has satisfied each of the standards for a least cost procurement policy set forth in Section 1318 of the Public Utility Code, including the standards set forth in Sections 1318(a)(1), 1318(a)(2), 1318(a)(3), 1318(a)(4), 1318(b)(1), 1318(b)(2), and 1318(b)(3), based upon the evidence of record in this proceeding. Nevertheless, it is expressly understood and agreed that such findings, relating to the rates to become effective December 1, 2024, are made solely for the purpose of setting prospective rates and shall be subject to further review in an appropriate future proceeding. Further, this Section of the Settlement, Section III.B, is not intended to limit or prevent any party from challenging projected gas purchases that actually have been made, including those made during the interim period of April 1, 2024 through November 30, 2024 and future gas purchasing practices that have been implemented, or from reviewing whether these gas purchases and gas purchasing practices have, in fact, complied with the standards of Section 1318, except as provided in Section II of the Joint Petition.

Also, the Joint Petitioners agree that future examination of the gas costs relating to the period April 1, 2024 through November 30, 2024, to determine whether UGI Gas's experienced and projected gas purchases and gas purchasing practices complied with the

standards set forth in Section 1318 of the Public Utility Code, 66 Pa. C.S. § 1318, shall be permitted and that the Commission's adoption of the findings under Section III.B of this Settlement shall not be construed to limit or prevent any disallowance or reduction of such costs, except as provided in Section II of the Joint Petition.

I&E technical staff fully analyzed the Company's filing, including all testimony and exhibits. I&E supports this settlement term as it provides regulatory certainty and a resolution of the issues; all of which facilitates the Commission's stated preference favoring negotiated settlements as in the public interest. I&E believes these agreed upon Settlement terms reflect an amicable agreement among the parties.

IV. GENERAL PROVISIONS (Joint Petition ¶¶ 41-48).

15. I&E represents that all issues raised in testimony have been satisfactorily resolved through discovery and negotiations with the Company or are incorporated or considered in the resolution proposed in the Settlement. The very nature of a settlement requires compromise on the part of all parties. This Settlement exemplifies the benefits to be derived from a negotiated approach to resolving what can appear at first blush to be irreconcilable regulatory differences. The Parties have carefully discussed and negotiated all issues raised in this proceeding, and specifically those addressed and resolved in this Settlement. Further line-by-line identification of the ultimate resolution of the disputed issues beyond those presented in the Settlement is not necessary as I&E represents that the Settlement maintains the proper balance of the interests of all parties. I&E is satisfied that no further action is necessary and considers its investigation of this Section 1307(f) filing complete.

16. I&E further submits that the acceptance of this Settlement negates the need for evidentiary hearings, which would compel the extensive devotion of time and expense for the preparation, presentation, and cross-examination of multiple witnesses, the preparation of Main and Reply Briefs, the preparation of Exceptions and Replies, and the potential of filed appeals, all yielding substantial savings for all parties and ultimately all customers. Moreover, the Settlement provides regulatory certainty with respect to the disposition of issues and final resolution of this case which all the Parties agree benefits their discrete interests and is in the public interest.

17. The Settlement is conditioned upon the Commission's approval of all terms without modification. Should the Commission fail to grant such approval or otherwise modify the terms and conditions of the Settlement, it may be withdrawn by the Company, I&E, or any other Party.

18. This Settlement is being presented only in the context of this Section 1307(f) proceeding to resolve certain outstanding issues in a manner that is fair and reasonable. I&E's agreement to settle this case is made without any admission or prejudice to any position that I&E might adopt during subsequent litigation in the event the Settlement is rejected by the Commission or otherwise properly withdrawn by any other Parties to the Settlement. Furthermore, the Settlement reflects compromises on all sides, and is presented without prejudice to the positions that any of the parties may advance in future UGI proceedings on the merits of the issues.

19. If the ALJs recommend that the Commission adopt the Settlement as proposed, I&E agrees to waive the filing of Exceptions. However, I&E does not waive

its right to file Replies to Exceptions with respect to any modifications to the terms and conditions of the Settlement or any additional matters that may be proposed by the ALJs in their Recommended Decision. Further, I&E does not waive the right to file Replies in the event any other party files Exceptions.

WHEREFORE, the Commission's Bureau of Investigation and Enforcement represents that it supports the Joint Petition for Settlement of Section 1307(f) Rates Investigation as being in the public interest and respectfully requests that Administrative Law Judges Dennis J. Buckley and Alphonso Arnold, III recommend, and the Commission approves, the terms and conditions contained in the Settlement without modification.

Respectfully submitted,



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Dated: August 14, 2024

Appendix C

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	Docket No. R-2024-3048828
	:	
v.	:	
	:	
UGI Utilities, Inc. – Gas Division	:	
1307(f) Proceeding	:	

THE OFFICE OF CONSUMER ADVOCATE’S
STATEMENT IN SUPPORT
OF THE
JOINT PETITION FOR COMPLETE SETTLEMENT

The Office of Consumer Advocate (OCA), a signatory to the Joint Petition for Complete Settlement (Settlement) in the captioned proceeding, respectfully requests in this Statement in Support that the terms and conditions of the Settlement be approved by Administrative Law Judges (ALJs) Arnold and Buckley as well as the Pennsylvania Public Utility Commission (Commission). As the OCA will explain further below in this Statement in Support, the OCA submits that the proposed Settlement is in the public interest and in the interests of the residential natural gas customers of UGI Utilities, Inc.

I. INTRODUCTION

On May 1, 2024, UGI Utilities, Inc. – Gas Division (UGI or Company) submitted its purchased gas cost (PGC) pre-filing pursuant to 52 Pa. Code §§ 53.64, 53.65. On May 31, 2024, the Company submitted its definitive filing including its annual PGC pro forma tariff supplement pursuant to 66 Pa. C.S. § 1307(f). The Commission assigned the proceeding to the Office of Administrative Law Judge (OALJ) and thereafter to ALJs Buckley and Arnold. On May 17, 2024,

the OCA filed a Formal Complaint. On June 14, 2024 a telephonic prehearing conference was held before the ALJs at which the Parties agreed to a procedural schedule.

To assist in its review of the UGI filing, the OCA retained the services of Jerome D. Mierzwa, a principal in the firm Exeter Associates who has extensive experience in the natural gas industry generally and in reviewing Pennsylvania natural gas distribution company PGC filings. The OCA issued two sets of interrogatories to UGI in this matter and submitted the Direct Testimony and Surrebuttal Testimony of Mr. Mierzwa on July 28, 2024 and July 22, 2024, respectively.

The parties engaged in settlement discussions considering discovery and testimony that enabled and supported the instant Settlement. Therefore, for the reasons set forth below, the OCA submits that the proposed Settlement is in the public interest and should be adopted by the Commission.

II. SETTLEMENT TERMS

A. FERC Participation Costs (Settlement ¶ 35)

The Settlement provides that UGI Gas agrees to withdraw its proposal for recovery of FERC Participation Costs through PGC rates without prejudice and specifically reserves its right to make additional proposals relating to recovery of FERC Participation costs in future rate cases and subsequent PGC proceedings, regarding unbundling these costs from base rates and moving them into PGC rates, respectively. Settlement at ¶ 35.

In UGI's initial filing, UGI proposed that the costs it incurs related to representing its customers' interests at FERC, including costs associated with outside counsel and consultants/expert witnesses, be recovered through PGC rates. These costs would be reflected in the Weighted Average Cost of Demand ("WACOD") that is charged to transportation and Choice

customers. *See* UGI St. No. 2 at 32-33. The OCA opposed UGI's proposal for several reasons in the direct testimony of Mr. Mierzwa. *See* OCA St. 1 at 5-7.

In OCA direct testimony, OCA witness Mierzwa explained that UGI's FERC participation costs are currently recovered through base rates, and UGI has not proposed to adjust its current base rates to remove FERC participation costs from its current base rates and, therefore, there would be a double recovery of FERC participation costs under the Company's proposal. OCA St. 1 at 5. Second, Mr. Mierzwa explained that UGI utilizes Section 1307 of the Public Utility Code to recover its natural gas costs. FERC participation costs are not identified as a natural gas cost and, therefore, not eligible for recovery under Section 1307 as the Company has proposed in this proceeding. *Id.* Third, Mr. Mierzwa explained that in determining UGI's FERC participation costs will require a detailed evaluation of employee salaries and expenses. This would involve assessing UGI's allocations of employee salaries and expenses to determine which portion of those salaries and expenses are related to the Company's FERC participation activities. Such evaluations are likely to be complex and are more appropriately examined in a base rate proceeding due to the limited time available for such an evaluation in a PGC proceeding. *Id.* at 6. Finally, Mr. Mierzwa testified that larger firm transportation customers that secure their own interstate pipeline firm transportation capacity benefit from UGI's FERC participation efforts to lower the rates of its interstate pipeline service providers, and therefore should be responsible for the appropriate portion of UGI's FERC participation costs. *Id.* at 6.

In Company rebuttal testimony, UGI witness Mr. Tyahla acknowledged that the Company's proposal would result in a double recovery of costs and effectively withdrew the initial proposal and proposed a modified proposal. *See* UGI St. No. 2-R at 3. Under the modified proposal, UGI seeks the flexibility to begin including FERC participation costs in PGC rates upon

the effective date of base rates established in the Company's next base rate case if those costs are removed from base rates in that next base rate proceeding. *Id.* The OCA opposed UGI's modified proposal for several reasons in the surrebuttal testimony of Mr. Mierzwa, See OCA St. 1SR at 1-4.

In OCA surrebuttal testimony, OCA witness Mierzwa explained that UGI should not be authorized to recover FERC participation costs through PGC rates in the Company's next base rate proceeding for the reasons set forth OCA St. 1, page 5, line 15 - page 7, line 10. However, given that UGI has withdrawn its initial proposal concerning the recovery of FERC participation costs through PGC rates in this proceeding, the OCA concluded it was unnecessary to further litigate UGI initial proposal in this proceeding. However, the OCA recognizes that UGI is free to propose an alternative to base rate recovery of FERC participation costs in its next base rate proceeding, and all parties to that proceeding are free to address the alternative proposal. OCA St. 1SR at 2.

In rebuttal, UGI witness Tyahla noted that the Company's FERC participation efforts reduce purchased gas costs and assist UGI in meeting its least cost gas procurement obligation and, as a result, such costs should be recoverable through PGC rates. UGI St. No. 1-R, page 4, lines 4-10. In surrebuttal, Mr. Mierzwa testified that FERC participation costs are not defined as a purchased gas cost recoverable under Section 1307 of the Public Utility Code.¹ OCA St. 1SR at 3 (citing OCA St. 1 at 5). Mr. Mierzwa explained that under Mr. Tyahla's mistaken reasoning, the costs associated with any activity that assisted UGI in minimizing its purchased gas costs would be eligible for recovery through PGC rates. For example, the costs associated with lost and unaccounted-for gas (LUFG) are largely recovered through PGC rates and, therefore, reductions to LUFG would reduce UGI's purchased gas costs. Reductions to LUFG would generally be

¹ OCA Statement No. 1, p. 5, lines 15-30.

accomplished through the replacement of leaking distribution mains and meter testing. Under Mr. Tyahla's theory, mains replacement costs and meter testing costs would be eligible for recovery through PGC rates. This would be unreasonable as these are base rate costs. OCA St. 1SR at 3. As another example, the costs associated with company-use gas are largely recovered through PGC rates and, therefore, reductions to company-use gas would reduce UGI's purchased gas costs. Company-use gas includes the gas utilized by UGI to heat Company buildings. The amount of gas used by UGI to heat Company buildings could be reduced if UGI improved the energy efficiency of its Company buildings. Under Mr. Tyahla's theory, these energy efficiency costs would be eligible for recovery through PGC rates. This would be unreasonable as there are base rates costs. *Id.*

Given that in the Settlement, UGI Gas ultimately withdrew its proposal to include FERC Participation costs in the instant PGC filing, the OCA submits this settlement which excludes FERC Participation costs is reasonable and in the public interest. The OCA reaffirms its testimonial position that FERC Participation costs are more appropriately examined in a base rate proceeding.

B. Other Provisions in the Settlement

The Settlement includes seven provisions that the OCA did not address in testimony: Design Day, Peak Day Capacity Supply Additions, Storage Capacity Addition, Long Term Peak Capacity Shortfall Planning, Peaking Contract RFP Modifications, Hedge Plan Trigger Study Recommendations and Quarterly Adjustment Methodology. The OCA reviewed these issues in the proceeding and submits that these provisions of the Settlement are reasonable and in the public interest.

1. Design Day (Settlement ¶ 24)

The Settlement provides that UGI Gas will be permitted to use a design day figure of 2.32 BCF, which includes 2.26 BCF of design cold firm requirements and 0.06 BCF of capacity reserves for the Company's firm core market needs. As stated above, based upon the OCA's review, the OCA finds the design day figure to be accurate and reasonable.

2. Peak Day Capacity Supply Additions (Settlement ¶¶ 25-27)

The Settlement provides that total peak day capacity supply shortfall needs, UGI Gas will accept the peak day offer from Supplier A for 8,394 Dth per day for a 5-year term to address the Company's identified peak day capacity shortfall *See* UGI Gas St. No. 2 at 21. UGI Gas also will accept the Uniondale 282 Mobile LNG offer from Supplier B for 10,000 Dth per day for a 2-year term beginning with the 2024-2025 winter season *See* UGI Gas St. No. 2 at 23-24. Based upon the OCA's review, the OCA finds the peak day capacity supply additions to be reasonable.

3. Storage Capacity Addition (Settlement ¶ 28)

The Settlement provides that UGI Gas shall be permitted recovery of costs related to the firm storage capacity EGTS Open Season for 56,667 Dth per day of deliverability through the Company's upstream capacity on Texas Eastern and Tennessee and with a term of 21 years. *See* UGI Gas St. No. 2 at 27-28. Based upon the OCA's review, the OCA finds the recovery of costs associated with the storage capacity addition to be reasonable.

4. Long-Term Peak Capacity Shortfall Planning (Settlement ¶ 29)

The Settlement provides that UGI Gas will implement a 5-year capacity shortfall plan to establish a capacity target and optimal step-up capacity targets for intermediate years. *See* UGI Gas St. No. 2 at 11. This 5-year plan will be incorporated into annual Requests for Proposal (RFP) processes and refreshed each year and UGI Gas will present any resulting capacity contracts for

review and approval in a future PGC proceeding. Based upon the OCA's review, the OCA finds the long-term peak capacity shortfall plan to be reasonable.

5. Peaking Contract RFP Modifications (Settlement ¶ 30)

The Settlement provides that UGI Gas will continue to use the RFP format as agreed to in the 2023 PGC Settlement at Docket No. R-2023-3040290 on a prospective basis. The Company's bid form will request that suppliers provide bids based on (a) payment terms that exclude a November payment and (b) payment terms that include a November payment. The Company will evaluate RFP responses in a manner, which is inclusive of projected PGC over/under collection and PGC interest impacts with regard to fixed charges in live Excel format. The Company will make the RFP responses available in future PGC proceedings to the statutory Parties. The Company will make a recommendation in its 2025 PGC proceeding based on the results of the three-year pilot study, as required under the 2021 PGC Settlement approved at Docket No. R-2021-3025652. Based upon the OCA's review, the OCA finds the RFP modifications to be reasonable.

6. Hedge Plan Trigger Study Recommendations (Settlement ¶¶ 31-33)

The Company will implement the recommendations provided in Gelber & Associates' Trigger Price Study (Study), conducted per the 2023 PGC Settlement at Docket No. R-2023-3040290, by way of a 4-year pilot commencing on January 1, 2025. The recommendations from the Study include: (a) Change the strategy of the current hedge program from an even distribution of monthly hedge purchases to a plan that is flexible and has "trigger hedge" amounts that are more heavily weighted towards months where the futures prices have historically been lower than other purchasing months; and (b) Revise the current schedule for hedge purchases from fixed days on a weekly basis to a market data-driven and informed, analytical determination of the most effective days within each month to purchase hedge positions. *See* UGI Gas Statement No. 2 at 36-37.

During the pilot, UGI Gas will compare the actual cost of the hedging activities set forth in the Study's recommendations against the performance that would have otherwise occurred under the Company's existing programmatic approach to hedging purchases. UGI Gas will hire a consultant, through an RFP process, to implement these recommendations and collect and analyze the data needed to compare the pilot against UGI Gas's programmatic methodology. The Company will recover these consultant costs, not to exceed \$120,000, related to implementing the recommendations of the Study, as well as analyzing and comparing the pilot data to UGI Gas's programmatic hedging approach in PGC rates.

As volatility increased over the last several years, the OCA has taken the position in the PGC cases of all of Pennsylvania's natural gas utilities that they should institute or consider instituting hedging programs to mitigate the effects of price volatility. As such, the OCA supports the implementation of the Study and pilot hedging program.

7. Quarterly Adjustment Methodology (Settlement ¶ 34)

The Settlement provides that UGI Gas will continue to side-by-side analysis of the QAM 1 and QAM 2 methods until the next PGC proceeding. In the Company's 2027 PGC filing, it will propose criteria for use in determining when QAM 1 and QAM 2 will be used prospectively to calculate the PGC rate change as agreed to in the 2023 PGC Settlement approved at Docket No. R-2023-3040290. Based upon the OCA's review, the OCA finds the quarterly adjustment methodology to be accurate and reasonable.

III. CONCLUSION

In consideration of the enumerated elements of the Settlement described above, the OCA finds the Settlement to be in the public interest, and for that reason, submits that its terms and conditions should be approved by the Administrative Law Judges and the Commission.

Respectfully Submitted,

/s/ Emily A. Farren

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