GOVERNOR'S OFFICE OF GENERAL COUNSEL
DEPARTMENT OF ENVIRONMENTAL PROTECTION

July 28, 2026

via electronic filing

Matthew Homsher, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Re: **Pennsylvania Public Utility Commission, et al. v. UGI Utilities, Inc.—Gas Division, Docket Nos. R-2025-3059523**

Dear Secretary Homsher:

Please find attached comments of Governor Josh Shapiro on the settlement proposed in this matter by UGI Utilities, Inc.—Gas Division, et al. on July 6, 2026.

If you have any questions about these comments, please do not hesitate to contact me.

Sincerely,

/s/ Mark Szybist
Mark Szybist
Special Counsel for Energy Affordability

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Counsel for Governor Josh Shapiro

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission, et al. v. UGI Utilities—Gas Division	: : : : :	Docket No. R-2025-3059523

COMMENTS OF GOVERNOR JOSH SHAPIRO ON PROPOSED SETTLEMENT OF UGI UTILITIES—GAS DIVISION BASE RATE FILING

Governor Josh Shapiro respectfully submits these comments in opposition to the "black box" settlement proposed in this matter by UGI Utilities—Gas Division ("UGI Gas") and several other parties.[1] The Governor opposes the proposed settlement because it is inconsistent with principles that the Governor has articulated as a fair barometer of whether utility rate proposals would result in excessive costs for Pennsylvania customers. Governor Shapiro urges the Public Utility Commission to modify the proposed settlement by: (1) establishing as UGI Gas's return on equity ("ROE") the lowest ROE supported by the record, and (2) imputing to UGI Gas either a capital structure that is the same as that of the company's parent, or the lowest-equity capital structure supported by the record.

Governor Shapiro has made lowering costs for Pennsylvanians a central focus of his Administration's efforts around economic development and energy and has sounded the alarm about the increasing frequency of utility requests for large base rate increases. On April 29, 2026, the Governor sent an open letter to Pennsylvania utility executives calling on them to put their

[1] Joint Petition for Approval of Settlement of All Issues ("proposed settlement") (July 6, 2026). The petitioning parties are UGI Gas, the Bureau of Investigation and Enforcement, the Office of Consumer Advocate, the Office of Small Business Advocate, and the Retail Energy Supply Association. The Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania did not join the proposed settlement but filed a letter stating non-opposition to it.

customers first and change utility practices that are driving up rates.[2] Specifically, Governor Shapiro articulated three principles for utilities to follow to ensure that rates are fair and that Pennsylvanians are not unduly harmed by unjustifiable costs. The proposed settlement, which among other things would raise UGI Gas's annual revenue requirement by $65 million and increase the distribution rates of residential customers by 11.3 percent,[3] does not satisfy those principles.[4]

First, the settlement does not demonstrate that UGI Gas will raise capital in the most cost-effective form available. Relatively low-cost debt—not high-cost equity—should normally represent a clear majority of a utility's proposed ratemaking capital structure. Moreover, when a distribution utility is owned by a holding company, its equity share should be no greater than its parent's, absent extraordinary justification. Otherwise, lower-cost debt benefits shareholders while higher-cost equity burdens ratepayers.

UGI Gas's parent, UGI Corporation, employs a capitalization ratio of 58.1 percent debt and 41.8 percent equity.[5] By contrast, UGI Gas currently has a capital structure of 52.5 percent equity and 47.5 percent long-term debt,[6] and in this case proposed an even more equity-heavy capital structure of 54.25 percent common equity and 45.75 percent long-term debt.[7] Both UGI

[2] A copy of Governor Shapiro's letter is attached as Exhibit 1. The Shapiro Administration understands that the letter was entered into the evidentiary record in this matter at the hearing conducted on June 2-3, 2026.
[3] *See* Proposed Settlement, Appendix C, "Bill Impacts" at 2. Under UGI's current rates, a residential customer using 6.88 Mcf of gas per month pays a fixed customer charge of $16.25 and volumetric charges of $43.53, or a total of $59.78. When the proposed settlement is fully phased in in 2027, the same customer would pay a fixed customer charge of $20.00 and volumetric charges of $46.55, or a total of $66.55. The distribution rates of commercial and industrial customers would increase by 9.8 percent and 10.2 percent, respectively. *See* Appendix C at 3-4.
[4] The Governor acknowledges that UGI Gas filed its rate increase application before the publication of the Governor's letter but believes it is in the public interest to highlight the discrepancies between his principles and the proposed settlement.
[5] *See* UGI Gas Application for General Rate Increase, Book I, Attachment II-A-1 (9/30/2025 Actual without Short-Term Debt). UGI's capital structure also includes a .1 percent minority interest.
[6] *See* Book I, Attachment II-A-1.
[7] *See* Proposed Settlement, Appendix G, Statement of UGI in Support of Joint Petition for Approval of Settlement of All Issues at 8.

Gas's current capital structure and the structure it proposed in this case violate the principle that utilities should raise capital in the most cost-effective manner possible, and a just and reasonable settlement would shift UGI Gas's capital structure toward greater symmetry. But the black box settlement proposed in this matter is silent on the UGI Gas's capital structure[8]—and must be assumed to continue the status quo. The Commission should reject this outcome and impute to UGI Gas, for ratemaking purposes, a capital structure that is the same as that of UGI Corporation, or alternatively, the lowest-equity capital structure supported by the record.

Second, the proposed settlement does not provide adequate assurance that the investments that UGI Gas will recover through base rates are necessary and cost-effective. When a utility proposes to increase its rates, it must use transparent data to show that the investments will address specific reliability or safety concerns or provide cost/benefit analysis that demonstrates significant customer savings or reliability benefits. Among other things, this means showing that customers will receive real net value from utility investments, and that the utility is controlling costs and maximizing the use of existing resources in customers' interest.

UGI Gas's rate increase proposal did not meet this standard. Through rates based on a fully projected future test year ("FPFTY") ending September 30, 2027 the company proposed to recover costs for—and earn a return on—new plant in service totaling nearly $1 billion in 2026 and 2027,[9] Most of this investment is being made under the company's current Long-Term Infrastructure Improvement Plan ("LTIIP"),which the Commission approved in 2024.[10] But the company provided little data to support the recovery of its LTIIP investments in base rates and no

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[8] *See* Proposed Settlement, Appendix G, Statement of UGI in Support of Joint Petition for Approval of Settlement of All Issues at 44.

[9] UGI's application proposed to move $470,582,000 in plant additions into rate base for 2026 and $507,994,000 into rate base for the FPFTY ending September 30, 2027. *See* UGI Gas Exhibit VAS-2.

[10] *See* UGI Gas Exhibit VAS-2. More than $695,000,000 of UGI Gas's proposed plant additions for 2026 and the FPFTY ending September 30, 2027 (approximately 71 percent) consist of "replacement and betterment" investments under the company's Third Long Term Infrastructure Improvement Plan approved in Docket No. P-2024-3050769.

cost-effectiveness analysis. Consequently, customers have not received assurance that they will receive adequate value for their increased rates.

The Governor acknowledges that the proposed settlement requires UGI to submit reports detailing actual capital expenditures, plant placed in service, and plant retired for the period from October 1, 2025 through September 30, 2027.[11] This requirement—which is effectively a compliance plan concerning 52 Pa. Code 53.56a(c)—would enable parties and stakeholders to determine whether UGI Gas invested as much capital and placed as much new plant in service as it forecasted in its application. But it would not provide assurance that those past and future investments are reasonable, prudent, and cost-effective.

Third, although the proposed settlement would result in a smaller rate increase than UGI Gas proposed, it would likely still award UGI an unjustifiably high return on equity ("ROE"). In its application, UGI Gas proposed to increase its ROE to an exorbitant 10.75 percent. Since the proposed settlement is a "black box" settlement, it does not include an agreed-to ROE. However, CAUSE-PA has estimated that it would result in an actual ROE of 9.7 percent, "assuming the Company's proposed capital structure, and all other things being equal."[12]

Governor Shapiro has urged utilities to demonstrate the reasonableness of their proposed ROEs by providing a benchmark (representing at least 10 percent of the incremental requested equity) that is transparently derived through a public process with competitive bidding by multiple participants to establish a fair market cost of that equity. When a utility declines to use such a process, it is fair to presume that the rate is higher than what such a process would yield, but that presumption can be overcome if a utility requests a return on equity that does not exceed

[11] *See* Proposed Settlement at ¶¶ 59-60.
[12] CAUSE-PA Letter Indicating Non-Opposition to Settlement (July 6, 2026) at Footnote 4.

the rate of the current 10-year U.S. Treasury yield plus the five-year median of the equity risk premium as published in the Federal Reserve's Financial Stability Reports.

Because UGI Gas filed its rate case increase before Governor Shapiro sent his open letter, it is understandable that the company did not adhere to the practices articulated there to reliably and competitively determine its fair market cost of equity. But the Governor believes that a ROE of 9.7 percent is—while less objectionable than the 10.75 percent than UGI Gas proposed—still impossible to reconcile with the relatively low-risk nature of monopoly gas distribution service, especially given UGI Gas's use of Pennsylvania's fully projected future test year and distribution system improvement charge ("DSIC") mechanisms, which reduce "regulatory lag" and de-risk capital investment.

Finally, the agreed-to rate increase in the proposed settlement is also troubling because UGI Gas filed its request to increase base rates just five months after settling its previous base rate case in Docket No. R-2024-3052716. UGI Gas evidently concluded that it settled the previous case for less revenue than it needed; however, the company's application did not acknowledge this fact, and the settlement does not explain why customers, rather than the company, should bear the consequences of this miscalculation.

For all these reasons, Governor Shapiro opposes the proposed settlement of UGI Gas's application to increase rates increase and[13] urges the Commission to reject or modify UGI Gas's proposal by reducing UGI Gas's ROE to the lowest number supported by the case record, and by imputing to UGI Gas the capital structure of its parent company, or alternatively imputing to UGI Gas the lowest-equity capital structure supported by the record.

Respectfully submitted:

Jennifer C. Selber
General Counsel

/*s/ Mark Szybist*

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Dated: July 28, 2026

Exhibit 1

April 29, 2026

Dear Utility Leaders:

As you are no doubt aware, many of your customers across the Commonwealth are experiencing markedly higher utility costs. Rising utility bills have themselves become drivers of inflation. While there are many factors affecting those increases, several core causes are directly within your control and result from your policy and fiscal decisions, including the excessive rate requests several utilities have sought in recent years. Last year alone, 13 Pennsylvania utilities requested $975 million in higher rates after those very same utilities had earned a total of $1.4 billion in profits in 2024.

We have reached a tipping point, and this is a moment to put your customers first and change the behaviors causing rate increases. As I've expressed publicly and privately, I believe the 20th century utility model is broken—we can no longer simply prioritize corporate profitability to drive infrastructure development. Rather, we must be laser focused on delivering on the actual needs of our communities. As I stated clearly in my Budget Address in February, Pennsylvania consumers should not be asked to pay a single dollar more than is needed to support a safe and reliable utility system.

Change is needed, and my Administration stands ready to support each Pennsylvania utility in raising the capital you need to invest in your service territories and workers, both in modernizing with cost-effective new technologies and maximizing the existing infrastructure that you have developed over time. However, as we work together to implement this new approach, you must seek to procure that capital in more affordable ways, conscious of the utility burdens facing many consumers across our Commonwealth.

I write today to lay out three commonsense practices to ensure the needs of Pennsylvanians come first. My Administration will use these three practices as a benchmark to evaluate rate case proposals going forward. Let me be clear: my Administration and I will vocally and forcefully oppose rate case requests from utilities that fail to adhere to these three commonsense practices.

First, utilities should seek to raise the most cost-effective forms of capital. Best practices now require you to protect consumers by disfavoring expensive equity when lower-cost debt is available. Given the low risk profile of monopolistic utilities, which maintain a captive rate base able to repay obligations over time, consumers should not be expected to bolster corporate profits through over reliance on costly equity. This means debt should normally represent a clear majority of a utility's proposed ratemaking capital structure, as it does in many other lower-risk industries. As one measure of this approach, any equity share proposed in a rate case in excess of the amount of equity employed by the utility's parent holding company will require extraordinary justification to receive my Administration's support.

For utilities looking to find low-cost sources of capital, my Administration encourages you to apply to the Department of Energy, which is currently offering loan terms as favorable as the 10-year U.S. Treasury yield plus 35 basis points. By comparison, the average Pennsylvania utility requested a return on equity a staggering 682 basis points above the 10-year U.S. Treasury yield last year. Before raising such expensive equity, you should take advantage of more affordable sources of capital, like these loans, that many of your fellow utilities across the country are pursuing. My Administration stands ready to facilitate an introduction to loan officers at the Department of Energy upon your request.

Second, whenever new revenue is sought, a utility must explain in plain, clear language why its proposed investments are necessary, using transparent data to identify a specific reliability or safety concern that will be addressed, or demonstrating with a thorough cost/benefit analysis that the investment will produce significant savings or reliability benefits for consumers. This means showing the value customers will receive in terms of discrete improvements producing tangible outcomes that are timebound, verifiable, and logically linked to the need for additional capital. Creating real value for customers also means maximizing existing grid resources in ways that control costs and defer the need for future upgrades. You must also describe explicitly what amount of your requested rate increase will be remitted to shareholders through corporate dividends or other means, as compared to what would be used to directly advance the needs of your customers.

Third, you must provide transparent, justifiable equity returns. Pennsylvania has a long, proud tradition of trusting free markets to deliver fair, transparent pricing. In fact, this year marks the 30th anniversary of Act 138, which introduced competition into our utility sector for the first time. That bipartisan law embodies Pennsylvania's deep-seated belief that free-market competition—when properly implemented and overseen—is the best tool for delivering customers the fair value they deserve. Today, we use markets to price our wholesale power and rely on principles of competition to fairly and impartially award public contracts. Yet less accurate administrative determinations—essentially amounting to educated guesses—still govern how much utilities earn on their equity investment. And all too often the outcome of this administrative process is shrouded in "black box" settlements, that do not provide the public with transparency about costs they will have to pay. These vestiges of the past need to evolve to ensure that utilities are not seeking excessive profits but only the opportunity to earn the fair rate of return to which they are entitled.

To accomplish this, utilities can prove their need for a requested return on equity by providing a benchmark (representing at least 10% of the incremental requested equity) that is transparently derived through a public process with competitive bidding by multiple participants to establish a fair market cost of that equity. This sample offers the energy consumer and Public Utility Commission real-world evidence of the proper authorized return on equity, an amount that will allow the utility to earn reasonable equity returns under efficient operations. If a utility declines to justify its requested return on equity through a competitive, transparent process, it creates a presumption in the view of my Administration that the requested rate is higher than would have been derived from such a competitive process. Absent extraordinary and unforeseen circumstances, a utility can overcome that presumption by requesting a return on equity that does not exceed the rate of the current 10-year U.S. Treasury yield plus the five-year median of the equity risk premium as published in the Federal Reserve's Financial Stability Reports. In simple terms, this allows the filing utility to earn the same expected return as the stock market as a whole, according to Federal Reserve estimates, comfortably exceeding typical Public Utility Commission calculations of risk for the utility sector.

This provides an outcome that is fair for your utility and your customers even without an auction or other market-based price discovery mechanism.

This letter is an effort to be up front with you about my Administration's approach to rate requests going forward. In directly laying out these practices, I am making clear my expectations. I stand ready to collaborate with you, the Public Utility Commission, and other stakeholders in advancing thoughtful rate requests that put Pennsylvania families and businesses first and control costs after years of unacceptably high rate increases. Should you wish to have my Administration's support for any future rate requests, you must submit a description of your compliance with these practices to my Special Counsel for Energy Affordability alongside your rate case filings.

I appreciate your compliance with these practices and look forward to working together to control costs for ratepayers and build out the needed infrastructure for our Commonwealth.

Sincerely,

Governor Josh Shapiro

Cc: Honorable Stephen M. DeFrank, Chair, Pennsylvania Public Utility Commission
Honorable Kimberly M. Barrow, Vice Chair, Pennsylvania Public Utility Commission
Honorable Kathryn L. Zerfuss, Commissioner, Pennsylvania Public Utility Commission
Honorable John F. Coleman, Commissioner, Pennsylvania Public Utility Commission
Honorable Ralph V. Yanora, Commissioner, Pennsylvania Public Utility Commission
Mark Szybist, Special Counsel for Energy Affordability, Office of General Counsel

BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission, et al.	:	
	:	
v.	:	Docket No. R-2025-3059523
	:	
UGI Utilities, Inc. – Gas Division	:	

CERTIFICATE OF SERVICE

I hereby certify that I have this day served copies of the Comments of Governor Josh Shapiro upon the parties of record in the above captioned proceeding in accordance with the requirements of 52 Pa. Code § 1.54:

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Date: July 28, 2026