Post & Schell P.C.
ATTORNEYS AT LAW

One Oxford Centre
301 Grant Street, Suite 3010
Pittsburgh, PA 15219
412-227-8887 Main
412-227-9065 Main Fax
www.postschell.com

Devin Ryan

dryan@postschell.com
717-612-6052 Direct
717-731-1985 Direct Fax
File #: 216478

September 8, 2026

VIA ELECTRONIC FILING

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

Re: PA Public Utility Commission, *et al.* v. UGI Utilities, Inc. – Electric Division
Docket Nos. R-2025-3059430, *et al.*

Dear Secretary Homsher:

Enclosed for filing is the Main Brief of UGI Utilities, Inc. – Electric Division ("UGI Electric") in the above-referenced proceeding. UGI Electric notes that **PUBLIC** and **PROPRIETARY** versions of its Main Brief are being filed. The **PUBLIC** version is being filed with the Commission via eFiling. The **PROPRIETARY** version is being filed with the Commission via its ShareFile for confidential filings.

Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,

Devin Ryan

DR/bfc
Enclosures

cc: The Honorable Steven K. Haas (*via email w/ enclosure)*
The Honorable Chad L. Allensworth (*via email w/ enclosure)*
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

Adam J. Williams, Esquire
Bureau of Investigation & Enforcement
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120
E-mail: adawilliam@pa.gov

Joseph L. Vullo, Esquire
Burke Vullo Reilly Roberts
1460 Wyoming Avenue
Forty Fort, PA 18704
E-mail: jlvullo@bvrrlaw.com
Counsel for CEO

Christy M. Appleby, Esquire
Jacob D. Guthrie, Esquire
Katie Kennedy, Esquire
Johnathan Longhurst, Esquire
Crystal M. Zook, Esquire
Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923
E-mail: cappleby@paoca.org
E-mail: jguthrie@paoca.org
E-mail: kkennedy@paoca.org
E-mail: jlonghurst@paoca.org
E-mail: czook@paoca.org
E-mail: OCAUGIElec26BRC@paoca.org

Steven C. Gray, Esquire
Senior Attorney
Assistant Small Business Advocate
Office of Small Business Advocate
555 Walnut Street, 1st Floor
Harrisburg, PA 17101
E-mail: sgray@pa.gov

Date: September 8, 2026

Devin Ryan

PUBLIC VERSION

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	Docket Nos. R-2025-3059430
Office of Small Business Advocate	:	C-2026-3061698
Office of Consumer Advocate	:	C-2026-3061790
Kory Boothe	:	C-2026-3062281
Mary Hibbard	:	
Elizabeth Saxton	:	
	:	
v.	:	
	:	
UGI Utilities, Inc. – Electric Division	:	

MAIN BRIEF OF UGI UTILITIES, INC. – ELECTRIC DIVISION

Michael S. Swerling (ID # 94748)
UGI Corporation
500 North Gulph Road
King of Prussia, PA 19406
Phone: 610-992-3203
E-mail: swerlingm@ugicorp.com

Candis A. Tunilo (ID # 89891)
UGI Corporation
1 UGI Drive
Denver, PA 17517
E-mail: tuniloc@oneugi.com

Devin T. Ryan (ID # 316602)
Emily S. Grecu (ID # 337777)
Post & Schell, P.C.
One Oxford Centre
301 Grant Street, Suite 3010
Pittsburgh, PA 15219
Phone: 717-612-6052
Fax: 717-731-1985
E-mail: dryan@postschell.com
E-mail: egrecu@postschell.com

David B. MacGregor (ID # 28804)
Garrett P. Lent (ID # 321566)
Lindsay A. Berkstresser (ID # 318370)
Post & Schell, P.C.
17 North Second Street, 12th Floor
Harrisburg, PA 17101
Phone: 717-731-1970
E-mail: dmacgregor@postschell.com
E-mail: lberkstresser@postschell.com

Dated: September 8, 2026

Counsel for UGI Utilities, Inc. – Electric Division

PUBLIC VERSION

TABLE OF CONTENTS

I. INTRODUCTION 1

A. UGI UTILITIES, INC. – ELECTRIC DIVISION 1

B. STATEMENT OF THE CASE 3

C. LEGAL STANDARDS 6

II. SUMMARY OF ARGUMENT 8

III. OVERALL POSITION ON RATE INCREASE 10

IV. RATE BASE 21

A. ELECTRIC PLANT IN SERVICE 22

B. ACCUMULATED DEPRECIATION 22

C. ADDITIONS TO RATE BASE 23

D. DEDUCTIONS FROM RATE BASE 24

V. REVENUES 24

VI. EXPENSES 26

A. ARGO TRANSACTION 27

B. DEPRECIATION EXPENSE 32

1. Plant Service Life 34

a. OCA's Proposed Change to the Survivor Curve for Account 364 – Poles, Towers, and Fixtures – Structures and Improvements Is Unreasonable 35

b. OCA's Proposed Survivor Curve for Account 365 – Overhead Conductors and Devices Has No Merit 37

c. OCA's Proposed Adjustment to the Survivor Curve for Account 368.1 – Transformers 39

2. Equal Life Group and Average Service Life Procedure 41

a. Description of ELG and ASL Procedures 41

33062783v1

b. Nothing Credible Supports OCA's Proposal for UGI Electric to Switch from Its Long-Standing Use of the ELG Procedure to the ASL Procedure 46

c. OCA Witness Garren's Calculations Contain Errors that Render Those Calculations Unreliable and Unusable 51

3. Conclusion Regarding Depreciation Expense 52

C. RATE CASE EXPENSE 52

D. CREDIT AND COLLECTIONS EXPENSE....................54

E. UNCOLLECTIBLE EXPENSE 57

F. VEGETATION MANAGEMENT EXPENSE....................57

G. PAYROLL AND PAYROLL-RELATED EXPENSES....................62

H. INCENTIVE COMPENSATION EXPENSE 63

I. INJURIES & DAMAGES 66

J. MEMBERSHIP DUES 68

VII. TAXES....................70

A. INCOME TAXES....................70

B. TAXES OTHER THAN INCOME TAXES....................71

C. PA LOCAL USE TAX 72

D. INTEREST SYNCHRONIZATION 72

VIII. RATE OF RETURN....................73

A. SUMMARY....................73

1. The Commission Should Adhere to the Constitutional Standards Applicable to the Rate of Return 73

2. UGI Electric's Proposed Rate of Return Is Market-Based, Reasonable, and Consistent with Long-Standing Precedent....................75

B. PROXY GROUP 76

C. CAPITAL STRUCTURE 78

D. COST OF LONG-TERM DEBT 85

E. RETURN ON EQUITY 85

1. Appropriate, Market-Based Models That Are Applicable to the Determination of a Reasonable ROE 85

2. The Company's Proposed Cost of Common Equity Is Market-Based, Reasonable, and Necessary to Provide the Company with a Reasonable Opportunity to Earn a Fair Return on Undisputed Investments in its Infrastructure 87

a. The Company's DCF Model Established a 10.82% ROE Applicable to the Utility Proxy Group 88

b. The Company's RPM Analysis Further Supports Its Requested ROE 89

c. The CAPM Analysis Performed by the Company Further Supports Its Requested ROE 91

d. The Non-Price Regulated Proxy Group Analysis Presented by the Company Shows that the Company's Requested ROE Is Reasonable and Below the ROEs of Comparable Non-Price Regulated Entities 94

e. The Company's Adjustments to Reflect Size-Based Business Risk, Credit Risk, and Flotation Costs Should Be Adopted 95

3. Other Parties' ROE Recommendations Are Unreasonable and Inadequate and Would Fail to Provide the Company with a Reasonable Opportunity to Earn a Fair Return on Undisputed Investments 97

a. I&E's ROE Recommendation Should Be Rejected 97

b. OCA's ROE Recommendation Is Flawed and Fails to Satisfy the Legal Standards Applicable to Determining a Reasonable ROE 101

c. OSBA's Testimony Regarding an Appropriate ROE Should Be Rejected 103

4. Conclusion Regarding ROE 104

IX. RATE STRUCTURE AND RATE DESIGN 104

A. COST OF SERVICE STUDY 107

B. REVENUE ALLOCATION 113

1. Introduction 113

2. UGI Electric's Revenue Allocation Is Reasonable 114

3. Universal Service Cost Allocation 117

C. RATE DESIGN AND CUSTOMER CHARGES 118

1. Summary of Proposed Rate Design 118

2. Residential Charges 121

a. The Company's Proposed Customer Charges Are Reasonable 121

b. UGI Electric Fully Rebutted I&E's Recommendation to Limit the Increase in the Residential Customer Charge 122

c. OCA's and CEO's Recommendations to Retain the Existing Residential Customer Charge Should Be Rejected 124

3. Non-Residential Charges 127

a. UGI Electric's Proposed Customer Charges for Rates GS-1, FCP, and GS-4 Are Reasonable 127

b. The Company Fully Rebutted I&E's Recommended Limit on the Increases in the Proposed Customer Charges for Rates GS-1, FCP, and GS-4 127

c. UGI Electric Addressed OCA's Arguments Regarding the Proposed Customer Charge for Rate GS-1 127

D. SCALE BACK 128

X. CUSTOMER SERVICE AND QUALITY OF SERVICE 129

A. CUSTOMER SERVICE PERFORMANCE 130

B. SHOPPING COMMUNICATIONS AND BILL PRESENTATION 131

C. FIELD AGENT TRAINING 132

D. WEBSITE REFORMS 134

E. ROOT CAUSE ANALYSIS 134

F. USE OF SOCIAL SECURITY NUMBERS 135

XI. CUSTOMER ASSISTANCE PROGRAMS AND LOW-INCOME ISSUES 136

A. LOW-INCOME ISSUES 136

1. Identification of Low-Income Customers 136

2. Deposit Exemptions 139

B. UNIVERSAL SERVICE PROGRAMS 141

1. CAP 141

2. LIURP 142

XII. OTHER ISSUES 144

A. PUBLIC INPUT HEARING TESTIMONY 144

XIII. CONCLUSION 150

APPENDIX A – Summary Tables of Position and Adjustments
APPENDIX B – List of Acronyms and Initialisms

TABLE OF AUTHORITIES

Cases

Allegheny Center Assocs. v. Pa. PUC,
570 A.2d 149 (Pa. Cmwlth. 1990)..7
Bluefield Waterworks and Imp. Co. v. P.S.C. of West Virginia,
262 U.S. 679 (1923) 73, 74, 103
Butler Township Water Co. v. Pa. PUC,
473 A.2d 219 (Pa. Cmwlth. 1984) 27, 53, 54
Carnegie National Gas Co. v. Pa. PUC,
433 A.2d 938 (Pa. Cmwlth. 1981) 79
City of Pittsburgh v. Pa. PUC,
182 Pa. Super. 376, 126 A.2d 777 (1956) …..73
Duquesne Light Co. v. Barasch,
488 U.S. 299 (1989) 74
Federal Power Commission v. Hope Natural Gas Co.,
320 U.S. 591 (1944) 74, 75, 103
Lloyd v. Pa. PUC,
904 A.2d 1010 (Pa. Cmwlth. Aug. 4, 2006) 109, 113, 114, 116
Lower Frederick Twp. v. Pa. PUC,
409 A.2d 505 (Pa. Cmwlth. 1980) …..7
Lower Paxton Twp. v. Pa. PUC,
317 A.2d 917 (Pa. Cmwlth. 1974) …..73, 74
NRG Energy, Inc. v. Pa. PUC,
233 A.3d 936 (Pa. Cmwlth. 2020) …..56
Octoraro Water Co. v. Pa. PUC,
391 A.2d 1129 (Pa. Cmwlth. 1978) …..74
Ohio Bell Tel. Co. v. Pub. Util. Comm'n of Ohio,
301 U.S. 292 (1937) 74
Pa. PUC v. Pa. Gas & Water Co. - Water Div.,
341 A.2d 239 (Pa. Cmwlth. 1975) 74
Popowsky v. Pa. PUC,
642 A.2d 648 (Pa. Cmwlth. 1994) …..53

Riverton Consolidated Water Co. v. Pa. PUC,
186 Pa. Super. 1, 140 A.2d 114 (1958) 73
T.W. Phillips Gas & Oil Co. v. Pa. PUC,
474 A.2d 355 (Pa. Cmwlth. 1984) 27
U.S. Steel Corp. v. Pa. PUC,
390 A.2d 849 (Pa. Cmwlth. 1978) 74
University of Pa. v. Pa. PUC,
485 A.2d 1217 (Pa. Cmwlth. 1984) 23
Western Pennsylvania Water Co. v. Pa. PUC,
54 Pa. Cmwlth. Ct. 187, 422 A.2d 906 (1980)....................27

Statutes

66 Pa. C.S. § 102....................1
66 Pa. C.S. § 2803 1
66 Pa. C.S. § 315(a) 7, 8
66 Pa. C.S. § 1301.................... 7, 8
66 Pa. C.S. § 1304 7
66 Pa. C.S. § 523(a) 55
66 Pa. C.S. § 1308(d) 4

Regulations

52 Pa. Code § 54.72 138
52 Pa. Code § 69.262 138
52 Pa. Code § 54.182 ....132, 133
52 Pa. Code § 54.187(c) 132
52 Pa. Code § 56.93-56.100 54

Commission Decisions

Application of Metro. Edison Co., R-00974008 (Order dated June 30, 1998) 109
Pa. PUC v. ALLTEL Pa., Inc.,
Docket Nos. R-942710, *et al.*, 59 Pa. PUC 447, 491, 1985 Pa. PUC LEXIS 53
(Order entered May 24, 1985) 80

Pa. PUC v. Aqua Pa., Inc., Docket No. R-00038805, 2004 Pa. PUC LEXIS 39 (Order entered Aug. 5, 2004) 7

Pa. PUC v. Aqua Pa., Inc., Docket Nos. R-00072711, *et al.*, 2008 Pa. PUC LEXIS 50 (Order entered July 31, 2008) 109

Pa. PUC v. Aqua Pa., Inc., Docket Nos. R-2021-3027385, *et al.* (Order entered May 16, 2022)....................64

Pa. PUC v. Breezewood Tel. Co., Docket No. R-901666, 1991 Pa. PUC LEXIS 45 (Order dated Jan. 31, 1991)....................7

Pa. PUC v. City of Lancaster - Water, Docket Nos. R-00984567, *et al.*, 1999 Pa. PUC LEXIS 39 (Order dated Sept. 22, 1999) 79

Pa. PUC v. Columbia Gas of Pa., Inc., Docket Nos. R-2020-3018835, (Order entered Feb. 19, 2021) 75

Pa. PUC v. Columbia Gas of Pa., Inc., Docket Nos. R-2025-3053499, *et al.* (Order entered Dec. 9, 2025) 18

Pa. PUC v. Columbia Water Co., Docket Nos. R-2023-3040258, *et al.* (Order entered Jan. 18, 2024) 75

Pa. PUC v. Met. Edison Co., 1979 Pa. PUC LEXIS 79 (Order entered Mar. 22, 1979) 85

Pa. PUC v. Metro. Edison Co., et al., Docket Nos. R-00061366, *et al.*, 2007 Pa. PUC LEXIS 5 (Order entered Jan.11, 2007)....................8

Pa. PUC v. Pa. Power & Light Co., 1983 Pa. PUC LEXIS 22 (Order entered Aug. 19, 1983)....................109

Pa. PUC v. Pa. Power & Light Co., 55 PUR 4th 185 (Order entered Aug. 19, 1983)....................109

Pa. PUC v. PECO Energy Co. – Gas Div., Docket Nos. R-2020-3018929, *et al.* (Order entered June 22, 2021)....................81

Pa. PUC v. Pennsylvania-American Water Co., Docket Nos. R-2023-3043189, *et al.* (Order entered July 22, 2024)....................64

Pa. PUC v. Pennsylvania-American Water Co., Docket Nos. R-2025-3057983, *et al.* (Order entered July 27, 2026)....................33

Pa. PUC v. Phila. Elec. Co.,
Docket No. R-891364, *et al.*, 1990 Pa. PUC LEXIS 155 (Order dated May 16, 1990) 7

Pa. PUC v. Phila. Gas Works,
Docket Nos. R-00061931, *et al.*, 2007 Pa. PUC LEXIS 45
(Order entered Sept. 28, 2007)...7

Pa. PUC v. Phila. Suburban Water Co.,
1991 Pa. PUC LEXIS 206 (Order entered Oct. 18, 1991) 84

Pa. PUC v. PPL Elec. Utils. Corp.,
Docket Nos. R-00049255, *et al.*, 2007 Pa. PUC LEXIS 55
(Order On Remand entered July 25, 2007)..115

Pa. PUC v. PPL Elec. Utils. Corp.,
Docket Nos. R-2012-2290597, *et al.*(Order entered Dec. 28, 2012) 63

Pa. PUC v. UGI Utils., Inc. – Elec. Div.,
Docket Nos. R-2017-2640058, *et al.* (Order entered Oct. 25, 2018) 56

Pa. PUC v. UGI Utils., Inc. – Gas Div.,
2000 Pa. PUC LEXIS 885 (Order entered June 29, 2000) 134

Petition of Pike Cnty. Light & Power Co. for Approval of its Default Serv. Implementation Plan for the Period of June 1, 2014 through May 31, 2016,
Docket No. P-2013-2371666 (Order entered Mar. 20, 2014) 132

I. INTRODUCTION

A. UGI UTILITIES, INC. – ELECTRIC DIVISION

UGI Utilities, Inc. ("UGI Utilities") is a corporation organized and existing under the laws of the Commonwealth of Pennsylvania and a wholly owned subsidiary of UGI Corporation. UGI Utilities has two divisions – the Gas Division ("UGI Gas") and the Electric Division ("UGI Electric" or the "Company"). UGI Electric is a "public utility" and a "electric distribution company" as defined in Sections 102 and 2803 of the Pennsylvania Public Utility Code, 66 Pa. C.S. §§ 102, 2803, subject to the regulatory jurisdiction of the Pennsylvania Public Utility Commission ("Commission"). UGI Electric provides electric distribution service to approximately 63,000 customers, located primarily in northeastern Pennsylvania.[1]

In this proceeding, UGI Electric updated its proposal to an increase in its annual base rate operating revenues of $16.050 million as part of the Company's rebuttal testimony. This was a reduction from the $17.283 million increase that the Company originally proposed in its initial filing. UGI Electric has since reached a non-unanimous settlement with the Office of Small Business Advocate ("OSBA"), under which the Company's proposed revenue increase is further reduced to $10.7 million.[2] The Company's proposed base rate increase is based on the use of a Fully Projected Future Test Year ("FPFTY") ending September 30, 2027 ("2026 Base Rate Case").

The primary need for UGI Electric's proposed rate increase is the Company's continued extensive efforts to repair, replace, improve, and modernize the aging portions of its distribution system, so that the Company can continue providing safe, efficient, adequate, reliable, and reasonable service. Since 2018, the Company has spent almost $92 million on these efforts that

[1] UGI Electric St. No. 3, p. 2.

[2] Per the ALJs' direction, UGI Electric and OSBA will file their Joint Petition for Non-Unanimous Settlement of All Issues, including their Statements in Support, by September 10, 2026.

support operating a safe and reliable distribution system. The Company anticipates that it will continue its accelerated capital programs over the coming years, as reflected in its Commission-approved Second Long-Term Infrastructure Improvement Plan ("Second LTIIP"). Combined with non-LTIIP capital investments in areas such as Information Technology ("IT") and growth, UGI Electric anticipates spending an additional $28.6 million in the Future Test Year ("FTY") and $37.3 million in the FPFTY, respectively.

The growth in capital investments and relatively stagnant customer usage and growth trends are the primary reasons why UGI Electric will not earn a fair rate of return on its investments at present rate levels. Unless UGI Electric receives the requested rate relief, those returns will continue to decline and jeopardize the Company's ability to attract the capital needed to make the system investments necessary to support and ensure continued system reliability, safety, and customer service performance.

At the same time, UGI Electric fully recognizes the concerns that have been raised regarding electric rate affordability. To that end, the Company has taken several steps to address those concerns in this proceeding, including: (1) managing its operating costs effectively over time, such that these costs have increased at a pace lower than general inflation during the same period; (2) proposing a return on equity ("ROE") in this case that is well below the midpoint of the proxy group; (3) not seeking a management effectiveness adjustment to its ROE in this case, despite its evidence of strong customer service, excellent reliability performance, and effective management of operating costs; (4) not seeking an adjustment, before this case, to the Company's base rates since 2023; and (5) committing to increase its annual donation of shareholder dollars to Operation Share by 28% for the next three years.[3]

[3] *See* UGI Electric St. No. 1-R, p. 15.

Further, as will be explained in the Company's Statement in Support, the non-unanimous settlement reached by UGI Electric and OSBA directly addresses affordability concerns by, among other things: (1) reducing the Company's proposed revenue increase to $10.70 million (i.e., $5.35 million less than the $16.05 million revenue increase supported by the Company's evidence); (2) reducing UGI Electric's proposed residential customer charge from $22.00 to $12.00; (3) establishing an Expanded Arrearage Forgiveness Pilot Program, which is modeled after the same pilot program pending approval at Docket Nos. R-2025-3059523, *et al.*, in the UGI Gas 2026 Rate Case Settlement, that will provide assistance to payment-troubled customers with income levels of 151% to 300% of the Federal Poverty Income Guidelines ("FPIG"); and (4) establishing a Small Business Payment Arrangement Program.

For the reasons explained below, in the Company's filing, in UGI Electric's forthcoming Statement in Support, and in the record in this proceeding fully supports UGI Electric's $16.05 million rate increase as just and reasonable, and therefore more than justifies the adoption of the non-unanimous settlement. Attached hereto as **Appendix A** are the Company's Rate Case Tables.[4] The List of Acronyms and Initialisms is attached hereto as **Appendix B**.[5]

B. STATEMENT OF THE CASE

This proceeding was initiated on March 27, 2026, when UGI Electric filed Supplement No. 92 to UGI Electric Tariff – Pa. P.U.C. No. 6 ("Supplement No. 92") with the Commission to be effective for service rendered on or after June 1, 2026. The Company proposed changes to UGI

[4] In light of the non-unanimous settlement achieved by UGI Electric and OSBA, the Rate Case Tables are being provided to show the cost-justified base rate revenue increase supported by the Company's evidence in this proceeding. As will be explained in the Company's Statement in Support, UGI Electric proposes that the Joint Petition for Non-Unanimous Settlement of All Issues be approved without modification. Furthermore, UGI Electric notes that the Rate Case Tables' formulae produce a revenue increase of $16.03 million, in contrast to the Company's revenue model showing a revenue increase of $16.05 million. However, the $20,000 difference is not material.

[5] The Company and OSBA will be filing their Joint Proposed Findings of Fact, Conclusions of Law, and Ordering Paragraphs on September 10, 2026, as part of the Joint Petition for Non-Unanimous Settlement of All Issues.

Electric's base retail distribution rates designed to produce an increase in revenues of approximately $17.283 million, based upon data for an FPFTY ending September 30, 2027. The filing was made in compliance with the Commission's regulations and contained all supporting data and testimony required to be submitted in conjunction with a tariff change seeking a general rate increase.

On March 31, 2026, the Bureau of Investigation and Enforcement ("I&E") filed a Notice of Appearance.

On April 7, 2026, OSBA filed a Formal Complaint at C-2026-3061591.

On April 8, 2026, the Office of Consumer Advocate ("OCA") filed a Formal Complaint at C-2026-3061676. Also, on April 8, 2026, the Commission on Economic Opportunity ("CEO") filed a Petition to Intervene.

On April 16, 2026, the Commission issued an order, pursuant to 66 Pa. C.S. § 1308(d), that suspended the filing by operation of law until January 1, 2027, unless otherwise directed by Order of the Commission.

On April 23, 2026, Administrative Law Judge ("ALJ") Steven K. Haas and ALJ Chad L. Allensworth (collectively, "the ALJs") issued a Prehearing Conference Order.

On May 5, 2026, in accordance with the ALJs' Prehearing Conference Order, OCA, OSBA, I&E, CEO, and UGI Electric filed prehearing memoranda.

The Prehearing Conference convened as scheduled on May 7, 2026. Counsel for UGI Electric, I&E, OCA, OSBA, and CEO were in attendance.

On May 28, 2026, the ALJs issued an In-Person & Telephonic Public Input Hearings Notice indicating the date and time of the In-Person & Telephonic Public Input Hearings.

On May 29, 2026, a Prehearing Order was entered consolidating the complaints and providing guidance on requirements for briefs and reply briefs. In addition, the Petition to Intervene filed by CEO was granted, and a litigation schedule was established. Also on May 29, 2026, UGI Electric filed a Motion for a Protective Order.

On June 1, 2026, UGI Electric entered the appearance of Candis Tunilo.

On June 10 and 11, 2026, in-person and telephonic public input hearings were held, respectively. Across all four sessions of the public input hearings, only 7 individuals testified. Also, no individuals appeared to provide testimony at the in-person public input hearing at 6 PM on June 10, 2026, or at the telephonic public input hearing at 1 PM on June 11, 2026.

On June 18, 2026, I&E, OCA, OSBA, and CEO served their direct testimony and exhibits.

On June 22, 2026, an Order was issued granting the Motion for a Protective Order.

On July 9, 2026, an Initial In-Person Hearings Notice was issued scheduling in-person evidentiary hearings for this matter from August 12 through 14, 2026.

On July 17, 2026, UGI Electric, I&E, and OSBA served their rebuttal testimony and exhibits. As set forth in UGI Electric's rebuttal testimony, the Company updated its revenue increase to $16.05 million to reflect (a) necessary updates to account for more recent and/or correct inputs to its revenue requirement, (b) the Company's agreement with certain adjustments proposed by the parties, and (c) the Company's voluntarily withdrawal of certain operations and maintenance ("O&M") expense claims to limit the number of issues in dispute in this matter.[6]

On August 5, 2026, UGI Electric, I&E, and OCA served their surrebuttal testimony and exhibits.

On August 10, 2026, UGI Electric served its rejoinder testimony and exhibits.

[6] *See* UGI Electric St. No. 2-R, pp. 2-3.

Also on August 10, 2026, OCA filed a Motion to Strike in the Form of a Motion in Limine regarding the Surrebuttal Testimony of Cynthia S. Fang submitted by UGI Electric.

On August 12, 2026, the in-person evidentiary hearings convened as scheduled. During the hearing, the OCA Motion to Strike in the Form of a Motion in Limine was denied. Also, during the hearing, I&E objected to certain appendices attached to UGI Electric Exhibit JRR-3RJ attached to the Rejoinder Testimony for Jessica Rogers. UGI Electric did not oppose striking the appendices. Thus, those appendices were excluded from the UGI Electric Exhibit JRR-3RJ admitted into the record.

The hearing concluded on August 13, 2026, with all relevant testimony admitted. The scheduled August 14, 2026 hearing date was canceled.

On August 18, 2026, the parties provided an agreed-upon Common Briefing Outline.

UGI Electric is aware of the following Formal Complaints by individuals on the dates and at the dockets indicated:

- On April 7, 2026, Mary Hibbard filed a Formal Complaint at C-2026-3061790.
- On April 9, 2026, Kory Boothe filed a Formal Complaint at C-2026-3061698.
- On May 6, 2026, Elizabeth Saxton filed a formal complaint at C-2026-3062281.
- On May 20, 2026, Carol Buchalski filed a formal complaint at C-2026-3062957.

None of these complainants were active parties in this matter.

C. LEGAL STANDARDS

Under the Public Utility Code, a public utility's rates must be just and reasonable and cannot result in unreasonable rate discrimination.[7] A public utility seeking a general rate increase has the burden of proof to establish the justness and reasonableness of every element of the rate

[7] 66 Pa. C.S. §§ 315(a), 1301 and 1304.

increase request.[8] "It is well-established that the evidence adduced by a utility to meet this burden must be substantial."[9]

However, a public utility, when proving that its proposed rates are just and reasonable, does not have the burden to affirmatively defend claims made in its filing that no other party has questioned. As the Commonwealth Court has explained, while it is axiomatic that a utility has the burden of proving the justness and reasonableness of its proposed rates, it cannot be called upon to account for every action absent prior notice that such action is to be challenged.[10]

Although the ultimate burden of proof does not shift from the utility seeking a rate increase, a party proposing an adjustment to a ratemaking claim of a utility bears the burden of presenting some evidence or analysis tending to demonstrate the reasonableness of the adjustment.[11] In addition, tariff provisions previously approved by the Commission are deemed just and reasonable and, therefore, a party challenging a previously-approved tariff provision bears the burden to demonstrate that the Commission's prior approval is no longer justified.[12]

Further, a party that raises an issue that is not included in a public utility's general rate case filing bears the burden of proof. For example, in *Pa. PUC v. Metropolitan Edison Co.*, Docket Nos. R-00061366, *et al.*, a party offered proposals to have the companies incur expenses not included in their filings. The ALJ held that, as the proponent of a Commission order with respect to its proposals, the party bears the burden of proof as to proposals that are not included in the

[8] 66 Pa. C.S. § 315(a); *Pa. PUC v. Aqua Pa., Inc.*, Docket No. R-00038805, 2004 Pa. PUC LEXIS 39, at *9 (Order entered Aug. 5, 2004) ("*Aqua 2004 Order*").

[9] *Lower Frederick Twp. v. Pa. PUC*, 409 A.2d 505, 507 (Pa. Cmwlth. 1980).

[10] *Allegheny Center Assocs. v. Pa. PUC*, 570 A.2d 149, 153 (Pa. Cmwlth. 1990).

[11] *See, e.g., Pa. PUC v. Phila. Elec. Co.*, Docket No. R-891364, *et al.*, 1990 Pa. PUC LEXIS 155, at *10-14 (Order dated May 16, 1990) (citations omitted); *Pa. PUC v. Breezewood Tel. Co.*, Docket No. R-901666, 1991 Pa. PUC LEXIS 45, at *10 (Order dated Jan. 31, 1991) (citation omitted).

[12] *See, e.g., Pa. PUC v. Phila. Gas Works*, Docket Nos. R-00061931, *et al.*, 2007 Pa. PUC LEXIS 45, at *165-68 (Order entered Sept. 28, 2007) (adopting the ALJ's discussion on burden of proof).

companies' filings. The Commission agreed and adopted the ALJ's conclusion that Section 315(a) of the Public Utility Code cannot reasonably be read to place the burden of proof on the utility with respect to an issue the utility did not include in its general rate case filing and which, frequently, the utility would oppose.[13]

II. SUMMARY OF ARGUMENT

UGI Electric is seeking a rate increase of $16.05 million dollars that is driven by the need to continue important and necessary infrastructure investments to maintain and improve the safety and reliability of its service. The Company has been significantly underearning for many years while continuing to invest tens of millions of dollars in modernizing its system, has leveraged its Distribution System Improvement Charge ("DSIC"), has filed base rate cases on a regular two- or three-year cadence (i.e., less frequently than certain other utilities), and has strong customer service and reliability performance. These factors distinguish UGI Electric from other utilities and reinforce the need and justification for the Company's requested rate relief.

Conversely, other parties' positions on the Company's rate increase are unjustified, are based upon significant departures from Commission precedent, and, if adopted, would adversely affect UGI Electric's ability to timely complete important infrastructure projects that no party has disputed. For example, I&E's unprecedented proposal to reduce I&E's calculated base rate revenue increase of $12.164 million by 50% due to the alleged impact of the Joint Application filed by UGI Utilities and Argo Infrastructure Partners LLC ("Argo") on June 25, 2026, at Docket Nos. A-2026-3063610, *et al.* ("Argo Transaction") has no support in the facts or law and appears simply to be a mechanism for I&E to arbitrarily reduce its calculated revenue increase. Further, OCA's incomplete proposal to change a long-established depreciation procedure, which the

[13] *Pa. PUC v. Metro. Edison Co., et al.*, Docket Nos. R-00061366, *et al.*, 2007 Pa. PUC LEXIS 5, at *111-12 (Order entered Jan.11, 2007).

Commission has recently and repeatedly rejected, would negatively impact the Company's ability to fund its investments and would simply reduce current rates while guaranteeing an increased rate base (and resulting higher rates) to be paid by future generations of UGI Electric customers. I&E and OCA also propose hypothetical capital structures for purposes of calculating UGI Electric's authorized rate of return, which not only contravene Commission precedent but their own expert witnesses' positions in other Commission base rate cases within the last 12 months.

In addition, the Company has presented a sound Allocated Cost of Service Study ("ACOSS") and revenue allocation to apportion the base rate increase equitably to the customer classes based on their cost of service. UGI Electric's ACOSS even relies on the same Minimum System Study ("MSS") that was utilized in the Company's last fully litigated rate case in 2018 and approved by the Commission as an appropriate method for classifying primary and secondary distribution plant assets as being partially customer-related. As for rate design, UGI Electric proposed an increase in its customer charge from $10.75 to $22.00 to better align the recovery of its fixed costs of service through a fixed rate component. The Company chose this level because while the ACOSS indicates a cost-based residential customer charge of $28.48, UGI Electric wanted to balance cost recovery with gradualism and overall bill impact considerations. However, under the non-unanimous settlement reached by UGI Electric and OSBA, the proposed residential customer charge is reduced from $22.00 to $12.00, i.e., lower than I&E's proposed charge of $13.30 and only $1.25 above the current charge of $10.75 that OCA and CEO seek to maintain.

Finally, the Company recognizes and understands the need to balance the completion of important work to provide safe and reliable service with the affordability concerns raised by customers and interested stakeholders. UGI Electric undertook several measures that directly address the affordability of its rates as part of its initial filing, including proposing an ROE below the mid-point of the proxy group and committing to a substantial upfront additional contribution to its Operation Share program that will assist customers that are experiencing difficulty paying their bills. Those measures have been supplemented by further voluntary decisions made by the Company in this proceeding to withdraw or not oppose certain adjustments to the revenue requirement, which have reduced the overall revenue increase sought. Coupled with the Company's ongoing efforts and successes in expanding its low-income assistance programs, ongoing commitments to continue to do so, and the provisions that will be set forth in the Joint Petition for Non-Unanimous Settlement of All Issues, which include an Expanded Arrearage Forgiveness Pilot Program, the Company has advanced a rate proposal in this proceeding that appropriately balances its need for rate relief, with ongoing improvements to the safety, reliability and quality of its service, and expansion of the assistance programs it offers.

For these reasons, and as explained further in this Main Brief and UGI Electric's forthcoming Statement in Support, the Company's proposals in this case are just and reasonable, and in the public interest, and are fully supported by the record evidence in this proceeding, and the ALJs and Commission should approve UGI Electric's rate case filing as modified pursuant to the Joint Petition for Non-Unanimous Settlement of All Issues.

III. OVERALL POSITION ON RATE INCREASE

UGI Electric's record evidence fully supports a $16.05 million increase in its annual electric distribution operating revenues for the FPFTY ending September 30, 2027.[14] However, the Company has reached a non-unanimous settlement of all issues with the OSBA, which, if approved, would result in an increase in annual electric distribution operating revenues of $10.70

[14] Reflected in UGI Electric Exhibit A – Fully Projected (REBUTTAL). *See* UGI Electric St. No. 2-R, p. 2. This amount represents the full revenue increase supported by the Company's testimony and exhibits.

million.[15] That amount is $5.35 million and 33.33% less than the amount supported by the Company's evidence and arguments set forth in its testimony, exhibits, and this Main Brief. Moreover, the $10.70 million increase is approximately $1.46 million less than I&E's calculated base rate revenue increase, before I&E's baseless, erroneous, and unprecedented adjustment related to the Argo Transaction. Thus, and as will be further addressed in the Company's Statement in Support, the revenue increase of $10.70 million is just and reasonable and should be approved without modification.

Importantly, the Company initially requested to increase its annual operating revenues for the FPFTY by $17.283 million and then voluntarily decreased its proposed revenue increase by approximately 7.1% in UGI Electric's rebuttal testimony to $16.05 million to reflect (a) necessary updates to account for more recent and/or correct inputs to its revenue requirement, (b) the Company's agreement with certain adjustments proposed by the parties, and (c) the Company's voluntary withdrawal of certain O&M expense claims to limit the number of issues in dispute in this matter.[16]

The Company's request for rate relief is primarily driven by important and necessary infrastructure investments planned for the FPFTY.[17] The undisputed record evidence demonstrates that these investments are necessary to continue to improve the safety and reliability of the Company's system. As UGI Electric witness Rogers explained:

> The primary need for UGI Electric's proposed rate increase is the Company's continued extensive efforts to repair, replace, improve, and modernize the aging portions of its distribution system. Since 2018, the Company has spent almost $92 million on these efforts that support operating a safe and reliable distribution system. The Company anticipates that it will continue its accelerated capital

---

[15] The Joint Petition for Non-Unanimous Settlement will be filed on September 10, 2026, including UGI Electric's and OSBA's Statements in Support.

[16] *See* UGI Electric St. No. 2-R, pp. 2-3.

[17] UGI Electric St. No. 1, p. 6.

> programs over the coming years, as reflected in its Commission-approved [Second LTIIP]. Combined with non-LTIIP capital investments in areas such as IT and growth, UGI Electric anticipates spending an additional $28.6 million in the FTY and $37.3 million in the FPFTY, respectively. The extensive capital work being undertaken by UGI Electric is described by Mr. DeGiusto in UGI Electric St. No. 3, and the capital planning process is described in the testimony of Ms. Schappell in UGI Electric St. No. 7. The growth in capital investments, along with relatively stagnant customer usage and growth trends, are the primary reasons why UGI Electric will not earn a fair rate of return on its investments at present rate levels.[18]

No party to this proceeding has disputed <u>a single dollar</u> of the Company's proposed infrastructure investments in the FPFTY. Moreover, the undisputed record evidence demonstrates that the Company has successfully controlled both capital costs and O&M expenses. In fact, the Company has effectively managed key O&M expenses from 2023 through the end of the FPFTY at a level (i.e., 2.5%) that is below the pace of inflation over that same period (i.e., 3.1%).[19]

Despite the unrebutted evidence of UGI Electric's planned infrastructure replacements and improvements, as well as the prevailing market conditions that make it more expensive for the Company to make these investments, I&E and OCA proposed unreasonable and inappropriate adjustments to the Company's requested increase in revenues. Although I&E determined that the Company's evidence supports a base rate revenue increase of $12.164 million (utilizing a 9.69% ROE and a hypothetical capital structure of 50% equity and 50% long-term debt),[20] I&E proposed an unprecedented downward adjustment of 50% (i.e., $6.082 million) based on the alleged impact of the Argo Transaction that remains pending before the Commission.[21] Meanwhile, OCA proposed a revenue increase of approximately $5.128 million (utilizing an 8.70% ROE and a

[18] *Id.*
[19] UGI Electric St. No. 1-R, pp. 15, 23.
[20] I&E St. No. 1-SR, pp. 3-4.
[21] *Id.*, pp. 4-5.

hypothetical capital structure of 42% equity and 58% long-term debt).[22] The remaining disputed issues that drive these positions are as follows:

AFFORDABILITY. In this proceeding, other parties have raised concerns about the affordability of UGI Electric's electric distribution service.[23] The Company recognizes the importance of balancing the incurrence of costs to provide safe and reliable service with maintaining affordable utility service for its customers. UGI Electric explained in detail how its focus on affordability is shown in how it operates and in the choices the Company affirmatively made in this case, noting specifically:

- This is UGI Electric's first rate case since 2023;
- The Company has fully utilized the DSIC;
- UGI Electric has managed its operating costs effectively over time, such that these costs have increased at a pace lower than general inflation during the same period;
- UGI Electric proposed a return on equity in this proceeding that is well below the mid-point of its peer group;
- The Company did not seek a management effectiveness adjustment to its ROE in this case, despite providing evidence regarding the effectiveness of its management in its execution of safety related projects, excellent reliability metrics, strong customer service performance, and the effective management of operating costs, and despite UGI Electric's prior history of being granted a management effectiveness adjustment in Docket No. R-2017-2640058 ("2018 Rate Case"); and
- UGI Electric's commitment in testimony in this proceeding that it will increase its annual donation of shareholder dollars to Operation Share by 28% for the next three years. [24]

[22] OCA St. 2SR, p. 3; OCA Exhibits SR-DM-1 and SR-DM-2. At the Company's actual capital structure of 54.25% equity and 45.75% long-term debt, OCA averred that an ROE of 8.00% should be used instead of 8.70%. OCA St. 3, p. 3.

[23] *See, e.g.*, I&E St. No. 2-SR, p. 11; OCA St. 1SR, pp. 7-8; OSBA St. No. 1, pp. 3-5; *see also* CEO St. No. 1, pp. 2-3.

[24] UGI Electric St. No. 1-R, p. 15.

Moreover, the Company maintains robust customer assistance programs that demonstrably benefit its customers[25] and continues to make significant strides in increasing the identification of customers eligible to participate in these programs and the enrollment of those customers once identified.[26]

Despite this undisputed evidence, other parties focus on general macroeconomic conditions and ask UGI Electric to have expanded responsibility for addressing economywide affordability pressures.[27] However, the regulatory framework already includes well-established customer protection and assistance tools that address payment difficulty, and a utility's rates should not be used as a substitute for welfare policy.[28] Also, expanding the role of regulation of utility rates to address economywide affordability pressures by suppressing or denying recovery of prudent costs would increase regulatory uncertainty and weaken the link between the cost of service and rates.[29] The better approach is to preserve cost-of-service ratemaking while directing affordability relief through targeted public programs and Commission-approved universal service mechanisms.[30] That approach is consistent with UGI Electric's targeted efforts to address affordability, including its administration and support for a wide range of assistance programs, investment in long-term usage reduction for income-eligible customers, and providing flexible payment tools for customers facing hardship.[31]

In addition, the non-unanimous settlement reached by UGI Electric and OSBA contains provisions that are designed to address the affordability concerns, including, but not limited to: (1) a reduced revenue increase of $10.70 million, which is 33.33% less than the $16.05 million

---

[25] *See* UGI Electric St. No. 12, pp. 3-9.
[26] *See, e.g.*, *id.*, pp. 6-7.
[27] *See, e.g.*, OCA St. 1SR, pp. 1-8.
[28] *See* UGI Electric St. No. 11-R, p. 59.
[29] *Id.*, p. 59.
[30] *Id.*, p. 62.
[31] *Id.*, p. 76.

increase supported by the Company's evidence; (2) a reduction in UGI Electric's proposed residential customer charge from $22.00 to $12.00, i.e., only a $1.25 increase of the existing charge of $10.75; (3) an Expanded Arrearage Forgiveness Pilot Program that is modeled after the same pilot program pending approval at Docket Nos. R-2025-3059523, *et al.*, in the UGI Gas 2026 Rate Case Settlement and will be available to payment-troubled customers with income levels of 151% to 300% of the Federal Poverty Income Guidelines ("FPIG"); and (4) a Small Business Payment Arrangement Program.[32] Thus, the parties' affordability concerns are being adequately addressed by UGI Electric through the non-unanimous settlement and the other actions described by the Company in its testimony in this proceeding.

ARGO TRANSACTION ADJUSTMENT. The largest adjustment in this case is I&E's meritless and unprecedented Argo Transaction adjustment. This adjustment was flawed from the outset. I&E witness Bedasa originally proposed a downward adjustment equal to 75% of I&E's calculated revenue increase, on the grounds that the Argo Transaction, which remains subject to litigation and Commission approval, is expected to close on April 1, 2027.[33] His logic was that UGI Electric would be selling its assets to Argo by April 2027, and asserted that "allow[ing] for one quarter or 25% of the overall increase . . . matches the period that UGI Corporation projects to continue ownership of UGI Electric during the FPFTY."[34] However, after UGI Electric pointed out that Mr. Bedasa's position assumed December 31, 2027, as the end of the FPFTY instead of the correct date of September 30, 2027, Mr. Bedasa updated his proposal in his surrebuttal

[32] Further details will be provided in the Joint Petition for Non-Unanimous Settlement of All Issues and in the Company's Statement in Support, which will be filed by September 10, 2026.
[33] I&E St. No. 1, p. 10.
[34] I&E St. No. 1-SR, p. 5.

testimony such that I&E's calculated revenue increase should be decreased by 50%, instead of 75%.[35]

I&E's adjustment has no merit for several reasons, including the following:

1. The adjustment assumes that: (1) the Commission will approve the Joint Application; (2) such approval will be in sufficient time to facilitate closing by April 1, 2027; and (3) the transaction will close by April 1, 2027.[36]

2. The adjustment presumes that upon divestiture, UGI Electric will stop its operations and infrastructure investment without evidence.[37]

3. I&E conceded in its testimony that the Joint Application proceeding is the appropriate forum for ensuring that ongoing investments and existing regulatory commitments will be maintained and that the rates reflected at the time of the transaction are appropriate for meeting those commitments.[38]

4. I&E's updated proposal is mathematically incorrect because a reduction of 50% of the revenue requirement would then go through the rate design, where rates are designed to recover the revenue requirement over a 12-month period; therefore, UGI Electric would only recover 25% of those costs (i.e., from January 1, 2027, through March 31, 2027, assuming the closing takes place on April 1, 2027).[39]

5. I&E only identified single cost category of post-acquisition expenditures—corporate allocations and shared services expenses;[40] however, the total increase reflected in the revenue requirement for this case for UGI Corp. allocations and shared services provided by UGI Utilities is only $2.5 million.[41] Applying I&E's logic that 50% of the claim is uncertain, then the total disallowance under its proposal should only be $1.25 million (i.e., 50% of the $2.5 million increase).[42] However, I&E witness Bedasa proposed to disallow more than $6 million, or nearly 5 times the amount of the "uncertain" costs identified in his testimony.[43]

6. I&E has failed to point to any precedent supporting its proposal and, in fact, did not propose such a reduction in the recent Pennsylvania-American Water Company ("PAWC") rate case or the pending Peoples Natural Gas Company LLC

[35] UGI Electric St. No. 1, p. 6; UGI Electric St. No. 1-R, pp. 12-13; I&E St. No. 1-SR, p. 10.
[36] *See* UGI Electric St. No. 1-R, p. 11.
[37] *Id.*
[38] *Id.*, p. 12; *see* I&E St. No. 1-SR, p. 9.
[39] UGI Electric St. No. 1-R, pp. 13-14; UGI Electric St. No. 1-RJ, p. 18.
[40] I&E St. No. 1-SR, p. 5.
[41] UGI Electric St. No. 1-RJ, p. 15.
[42] *Id.* Notably, reducing I&E's calculated revenue increase of $12.164 million by $1.25 million would be $10.914 million, which is higher than the $10.7 million revenue increase under the non-unanimous settlement reached by UGI Electric and OSBA.
[43] *Id.*

> ("Peoples") rate case, even though there is an ongoing, litigated proceeding regarding the merger of those utilities' ultimate parent holding companies."[44]

For these reasons, and as explained in more detail in Section VI.A, *infra*, I&E's proposed Argo Transaction adjustment has no merit and should be wholly disregarded in this matter.

RATE OF RETURN. The next largest driver of the divergent revenue requirement positions is Rate of Return. While this issue is generally the most important, controversial, and difficult to determine issue in a base rate proceeding, it is of particular importance in this case. UGI Electric is in the midst of major infrastructure improvements, which are critically important to maintaining and improving the safety and reliability of its facilities and service.[45] At no point in this case have the parties challenged the necessity of the $37.311 million of the Company's planned capital investments to improve the safety and reliability of its infrastructure in the FPFTY.[46] As the Company continues this important work, it is necessary to recognize "the steady, necessary and important investment in essential infrastructure that services the public must be coupled with steady, necessary, and reasonable rate relief that reflects the cost of serving customers."[47] A compensatory cost of common equity (i.e., return on equity or ROE) is critical for the continuation of this work, and continued improvements to the safety and reliability of UGI Electric's infrastructure.

The Company proposed an ROE of 10.85% in its testimony, which is a fully-compensatory and reasonable return on common equity that is based upon an evaluation of multiple market-based cost of equity models.[48] I&E's ROE recommendation is 9.69%.[49] I&E achieves this recommendation by departing from its historical Discounted Cash Flow ("DCF") focused analysis

---

[44] UGI Electric St. No. 1-RJ, p. 12.
[45] *See, e.g.*, UGI Electric St. No. 1, p. 6.
[46] UGI Electric St. No. 1-RJ, p. 4.
[47] *Id.*, p. 21.
[48] *See* Section VIII.E, *infra*.
[49] I&E St. No. 2, p. 7.

and giving equal weight to its DCF outcome, its Capital Asset Pricing Model ("CAPM") analyses, and the national historic average of authorized ROEs reported by S&P Global.[50] However, as explained by UGI Electric witness D'Ascendis, I&E's positions on the authorized ROE are flawed and should be rejected.[51] I&E compounds its unreasonable ROE recommendation with an unsupported hypothetical capital structure of 50.00% common equity and 50.00% long-term debt.[52] Rather than following the well-established Commission precedent that a hypothetical capital structure should only be imposed when the utility's capital structure is atypical or too heavily weighted to either debt or equity such that is outside range of reasonableness,[53] Mr. Patel recommended a hypothetical capital structure "<u>only in order to reduce the impact of an equity heavy/rich capital structure on ratepayers</u>."[54] Thus, I&E's positions on these two key components of the rate of return determination should be rejected.

OCA's flaws go even further and, if adopted, would have significant and detrimental impacts upon the Company's ability to attract capital at a reasonable cost. First, OCA proposes the adoption of a hypothetical capital structure of 42.00% common equity and 58.00% long-term debt.[55] However, UGI Electric's capital structure is reasonable, and within the range presented by comparable companies; it is not atypical.[56] To the contrary, OCA's proposed capital structure would be atypical. Second, OCA presents unreasonable ROEs of 8.7% (if its meritless hypothetical capital structure is used) and 8.0% (if the Company's actual capital structure is

---

[50] *Id.*
[51] UGI Electric St. No. 8-R, pp. 19-48.
[52] I&E St. No. 2, pp. 16-20.
[53] *See, e.g., Pa. PUC v. Columbia Gas of Pa., Inc.*, Docket Nos. R-2025-3053499, *et al.*, p. 213 (Order entered Dec. 9, 2025) ("*Columbia Gas 2025 Order*").
[54] I&E St. No. 2-SR, p. 11 (emphasis added).
[55] OCA St. 3, pp. 5, 59.
[56] *See* UGI Electric St. No. 8-R, p. 8.

utilized).[57] OCA arrives at those recommendations based upon a completely improper DCF analysis and highly flawed CAPM analyses.[58]

DEPRECIATION EXPENSE. OCA further proposed an approximately $1.59 million reduction to UGI Electric's depreciation expense, largely due to: (1) the conversion from the Equal Life Group ("ELG") to the Average Life Group ("ALG")[59] method for vintages after 1982; and (2) adjustments to the service lives for plant Accounts 364 – Poles, Towers, and Fixtures, 365 – Overhead Conductors and Devices, and 368.1 – Transformers.[60] Although OCA continues to push for the ALG method instead of the ELG method used by UGI Electric and other utilities in Pennsylvania for over 40 years, the Commission has repeatedly rejected OCA's proposal in recent rate cases.[61] Further, as explained later in this Main Brief, OCA's proposed adjustments to the service lives for certain plant accounts do not have merit.[62] Thus, the Commission should deny OCA's proposed reduction in UGI Electric's depreciation expense.

OTHER EXPENSE ADJUSTMENTS. I&E and OCA proposed a variety of expense adjustments. As noted above, however, the Company's updates to its requested revenue increase in its rebuttal testimony reflected, among other things, its acceptance of various adjustments proposed by I&E and OCA and its decision to voluntarily withdraw certain claims in order to limit the number of issues in dispute in this proceeding. As a result, the dispute amount of all remaining expense adjustments, excluding depreciation, is a total of less than $1.2 million. The expense

---

[57] OCA St. 3, p. 61.

[58] *See* Section VIII.E.3.a, *infra*.

[59] ALG is also known as Average Service Life or "ASL."

[60] *See* OCA St. 4, pp. 5-6; OCA St. 2, p. 14. OCA witness Garren's direct testimony showed a depreciation expense adjustment of approximately $1.8 million, whereas OCA witness Mugrace relied on a depreciation expense adjustment of $1,587,004 to develop OCA's proposed revenue requirement. *See* OCA St. 4, pp. 5-6; OCA St. 2, p. 14. In his surrebuttal testimony, Mr. Garren clarified that the $1,587,004 figure is the adjustment for the FPFTY, while his direct testimony described the amount as of the end of the FTY. *See* OCA St. 4SR, p. 9.

[61] *See* Section VI.B.2.b, *infra*.

[62] *See* Section VI.B.1, *infra*.

adjustments that remain in dispute, besides depreciation, are: (1) rate case expense; (2) credit and collections expense; (3) uncollectible expense; (4) vegetation management expense; (5) payroll and payroll-related expenses; (6) incentive compensation expense; (7) injuries and damages expense; and (8) membership dues.[63] The Company has rebutted these proposed expense adjustments and has explained how its updated revenue increase in its rebuttal testimony of $16.05 million incorporated the appropriate baseline of operating expenses UGI Electric expects to incur in the FPFTY. On top of that, UGI Electric and OSBA's non-unanimous settlement, if approved, would result in a base rate revenue increase of $10.70 million. The Company's testimony demonstrates that OCA and I&E's adjustments to these expense claims are flawed and provides further support that the revenue increase of $10.70 million under the non-unanimous settlement should be approved.

APPROPRIATE RECOVERY OF THE FIXED COSTS OF SERVICE. As important as the Company's request for rate relief is, UGI Electric must also have a reasonable opportunity to recover that increase. On this issue, there are two areas of specific importance. First, the Company's residential customer charge should be increased to properly reflect and recover the fixed, non-variable costs of UGI Electric's service. The undisputed record evidence shows that the Company incurs fixed customer costs that far exceed the current residential customer charge of $10.75.[64] Updating the residential customer charge is necessary to align the recovery of the fixed costs of service through a fixed charge, send proper price signals to the Company's customers regarding the fixed costs of service, and avoid intra-class shifts of cost recovery between higher and lower usage customers.[65] Moreover, under the non-unanimous settlement reached by UGI

[63] *See* Sections VI.B through VI.I, *infra*.
[64] *See* Section IX, *infra*.
[65] *See, e.g.*, UGI Electric St. No. 11-R, pp. 3, 24-25.

Electric and OSBA, the residential customer charge would only increase to $12.00, as opposed to the $22.00 charge supported by the Company's evidence. That modest increase of $1.25 is actually $1.30 less than the residential customer charge of $13.30 that I&E proposed in this case.[66]

BILL IMPACTS. Under the base rate revenue increase of $16.05 million supported by the Company's testimony, a typical Residential default service customer using 1,000 kilowatt hours per month would see an increase in their monthly bill from $200.50 at current rates to $224.22, or by 11.8%. A typical Small C&I customer using 1,000 kilowatt hours per month would see an increase in their monthly bill from $190.78 to $214.41, or by 12.4%. UGI Electric notes, however, that these bill impacts will be even lower under the $10.70 million revenue increase agreed to by the Company and OSBA, as will be shown in the Bill Impacts submitted as part of the Joint Petition for Non-Unanimous Settlement of All Issues.

For reasons explained below, the revenue increase, revenue allocation, and rate design proposed in UGI Electric's testimony are fully supported by the record, and the other parties' positions should be rejected.

IV. RATE BASE

The Company's updated claimed rate base reflects the projected balance as of the end of the FPFTY of approximately $239.09 million.[67] The balance reflects Plant in Service, Accumulated Depreciation, Working Capital, Accumulated Deferred Income Taxes, Customer Deposits and Materials and Supplies projected as of the end of the FPFTY.[68] The only proposed adjustments to the Company's rate base are derived from parties' adjustments to certain categories

[66] *See* I&E St. No. 3, p. 10.
[67] UGI Electric Exhibit A – Fully Projected (REBUTTAL), Schedule A-1.
[68] *See id.*

of O&M expenses, which should be rejected for the reasons stated in Section VI, *infra*. As such, the Company's claimed rate base is fully supported by the record in this proceeding.

A. ELECTRIC PLANT IN SERVICE

The Company's claimed gross plant in service for the FPFTY is $353.96 million.[69] Less its depreciation reserve (i.e., accumulated depreciation), the Company's proposed net plant in service for the FPFTY is approximately $251.64 million.[70] No party has proposed any adjustments to the Company's claimed gross plant in service. The only adjustments to net plant in service advanced in this proceeding are due to adjustments to the depreciation reserve proposed by OCA, which should be rejected for the reasons stated in Sections IV.B and VI.A, *infra*. As such, the Company's claimed net and gross plant in service are fully supported by the record in this proceeding.

B. ACCUMULATED DEPRECIATION

The Company's depreciation reserve as of the end of the FPFTY was calculated by Gannett Fleming Valuation and Rate Consultants, LLC ("Gannett Fleming").[71] Consistent with accepted ratemaking practice, the depreciation reserve is the book reserve brought forward from the book reserve approved by the Commission in the Company's last base rate proceeding.[72] The book reserve was projected generally using the straight-line remaining life method, with the ASL and ELG procedures, consistent with UGI Electric's decades long approach to depreciation.[73] The allocated book depreciation reserve as of September 30, 2027, was calculated to be $102,322,767.[74]

---

[69] *Id.*
[70] *Id.*
[71] *See* UGI Electric St. No. 6, pp. 1, 4-5.
[72] *See id.*, p. 5.
[73] *See id.*, p. 10.
[74] *See id.*, p. 12.

OCA's proposed adjustments to depreciation expense, which defy long-standing and recently affirmed Commission precedent, are addressed in Section VI.B, *infra*. Further, OCA witness Garren uses an erroneous process for his calculations. Specifically, he does not use his recommended ALG procedure and survivor curve estimates, but instead uses the forecasted reserve amounts developed by the Company.[75] Thus, there is no basis in the record for the Commission to adjust the depreciation reserve, and OCA failed to carry its burden of proving any adjustment to the same.

C. ADDITIONS TO RATE BASE

The Company's claimed addition to rate base for Materials and Supplies in the amount of approximately $3.84 million is undisputed.[76] Therefore, this addition should be adopted without adjustment or modification.

In accordance with established precedent, the Company has claimed an allowance for Cash Working Capital ("CWC") in this proceeding.[77] The Company's final CWC claim in the amount of approximately $13.29 million is fully justified by the record in this proceeding.[78] The methodology underlying the Company's CWC claim, which is based upon its lead-lag study, was fully explained by UGI Electric witness Keller.[79] No party disputed the Company's methodology. The Company's final CWC claim amount reflected all adjustments and updates to various categories of O&M expense accepted by the Company in its rebuttal testimony, as well as the rejection of certain unreasonable and inappropriate expense adjustments proposed by the other

[75] UGI Electric St. No. 6-R, p. 29.
[76] UGI Electric Exhibit A – Fully Projected (REBUTTAL), Schedule A-1.
[77] *See University of Pa. v. Pa. PUC*, 485 A.2d 1217, 1226-27 (Pa. Cmwlth. 1984) (citations omitted).
[78] *Id.*, Schedules A-1 and C-4.
[79] UGI Electric St. No. 5, pp. 9-14.

parties that are detailed in Section VI, *infra*. Therefore, the Company's final CWC claim is fully justified by the record in this proceeding.

Notwithstanding, I&E raised concerns with the meter-read factor increasing from 1.10 days in the last rate case to 2.26 days in this rate case and with the other expense lag days decreasing from 30.76 days in the last rate case to 20.57 days in this rate case.[80] I&E recommended that UGI Electric be required to address these issues between now and the next rate case.[81] The Company did not oppose that recommendation and stated that it will give due consideration to these factors as part of its preparation of the next base rate case filing.[82]

D. DEDUCTIONS FROM RATE BASE

The Company also claimed deductions to its rate base associated with accumulated deferred income taxes ("ADIT") and customer deposits, which reduced rate base by approximately $27.95 million and $1.73 million, respectively.[83] The development of the Company's tax claims, including its claim for ADIT to reduce rate base, are explained in Section VII, *infra*, and were not disputed by any party. The Company's claim to reduce rate base by the projected amount of customer deposits was explained by UGI Electric witness Keller and likewise was not disputed by any party.[84] Therefore, these claimed reductions to rate base are fully justified by the record in this proceeding.

V. <u>REVENUES</u>

UGI Electric's FPFTY *pro forma* revenues at present rates were determined by adjusting the budgeted revenues to reflect the anticipated change in the number of customers, the projected

---

[80] *See* I&E St. No. 1, pp. 41-42.
[81] *See id.*, p. 42.
[82] *See* UGI Electric St. No. 5-R, p. 2.
[83] UGI Electric Exhibit A – Fully Projected (REBUTTAL), Schedule A-1; *see also* UGI Electric St. No. 9, pp. 4-10.
[84] UGI Electric St. No. 5, p. 15.

change in existing customer usage, the roll-in of revenues from the DSIC, and other pro forma annualizing and normalizing ratemaking adjustments.[85] UGI Electric's initial claim reflected total *pro forma* revenues at present rates, inclusive of customer & distribution revenue, cost revenue, and other revenues (e.g., forfeited discounts, miscellaneous service revenues, rent from electric properties) of approximately $145.39 million.[86] The Company's *pro forma* revenues at present rates were later adjusted to approximately $145.46 million, due to UGI Electric's decision to voluntarily adjust the forfeited discount revenue by the same percentage as the overall base rate increase as proposed by I&E witness Cline.[87]

UGI Electric's present rate revenues were based upon FPFTY sales and revenues, which were developed by annualizing and normalizing the Company's 2027 fiscal year planned sales and revenue budget.[88] Annualized sales were determined by developing sales and revenue adjustments reflective of annual expected use per customer and projected customer counts as of the end of the FPFTY, or September 30, 2027.[89] UGI Electric Exhibit SAE-2 provides the development of the Company's normal degree day values, which are based on the 10-year period 2015-2024.[90] This data was used in normalizing use per customer for degree days.[91] Also, UGI Electric explained that normal Heating Degree Days ("HDD") and Cooling Degree Days ("CDD") are now defined based upon an average over a 10-year period with the most recent update of the 10-year period ending December 31, 2024.[92] No party disputed the use of 10-year normal HDDs and CDDs for

[85] *See* UGI Electric St. No. 2, p. 7.
[86] UGI Electric Exhibit A – Fully Projected, Schedules A-1 and D-5.
[87] UGI Electric Exhibit A – Fully Projected (REBUTTAL), Schedules A-1 and D-5; UGI Electric St. No. 2-R, pp. 4-5. The Company notes that it made this adjustment to limit the disputed revenue requirement issues in this case.
[88] UGI Electric St. No. 10, p. 3.
[89] *Id.*
[90] *Id.*
[91] *Id.*
[92] *Id.*

purposes of the base-rate billing determinants required to calculate the Company's revenues at present and proposed rates.

Accordingly, the Company's proposed present rate revenues and methodology for determining the same as described herein are unopposed and fully justified by the record in this proceeding.

VI. EXPENSES

The Company's final claim for O&M expenses during the FPFTY[93] is fully supported by the evidentiary record. Below, the Company addresses specific adjustments to a limited number of categories of O&M expenses advanced by the parties, along with I&E's proposed Argo Transaction adjustment, as the only specific cost categories identified by I&E as potentially being affected by the Argo Transaction were corporate allocations and shared services.[94]

It is important to note that the Company revised its claim for O&M expenses over the course of this proceeding. In making these revisions, UGI Electric updated its claim to reflect the most accurate projections available to it regarding the reasonable and prudent expenses it will incur during the FPFTY and made significant concessions as an acknowledgement of affordability concerns and to narrow the scope of disputed issues regarding O&M expenses that must be resolved in this matter.[95] In total, the Company voluntarily reduced its claimed O&M by more than $1.23 million[96]–an amount more than the total remaining disputed O&M (excluding the unprecedented and improper Argo Transaction and depreciation adjustments). As such, the Company's claim regarding O&M expenses reflects the "baseline . . . expenses necessary to

[93] *See* UGI Electric Exhibit A – Fully Projected (REBUTTAL), Schedules A-1 and D-1.
[94] *See* I&E St. No. 1-SR, p. 5.
[95] *See* UGI Electric Exhibit A – Fully Projected (REBUTTAL); UGI Electric St. No. 2-R, pp. 2-4; UGI Electric St. No. 4-R, p. 2; UGI Electric St. No. 1-RJ, p. 8.
[96] UGI Electric St. No. 1-RJ, p. 2.

continue to provide safe and reliable service to customers, to meet new customer demand, and to continue providing high-quality customer service, including substantial programs that assist low-income customers."[97]

In *Butler Township Water Co. v. Pa. PUC*, 473 A.2d 219, 221 (Pa. Cmwlth. 1984) ("*Butler Township*"), the Commonwealth Court concluded:

> The general rule is that a public utility is entitled to recover in rates those expenses reasonably necessary to provide service to its customers and to earn a fair rate of return on the investment and plant used and useful in providing service. *Western Pennsylvania Water Co. v. Pennsylvania Public Utility Commission*, 54 Pa. Cmwlth. Ct. 187, 422 A.2d 906 (1980). [. . .] Obviously, the refusal to allow the recovery of a proper expense diminishes to the same extent the utility's return on investment. There is no evidence in the record that the . . . expenses claimed here were unreasonable, imprudently incurred or excessive in amount.[98]

As the Commonwealth Court determined in *Butler Township*, the relevant question in a base rate proceeding is whether the expense is reasonable and appropriate for the furnishing of service to customers. As the Company will show herein, the expenses it has included in this proceeding are reasonable and appropriate to provide service to its customers. Also, the Company's claimed level of O&M expenses during the FPFTY is particularly conservative in light of the concessions made by the Company during this proceeding. Therefore, UGI Electric's expense claims should be approved.

A. ARGO TRANSACTION

As noted previously, I&E proposed an across-the-board reduction in UGI Electric's revenue increase based on the purported impact, or lack of certainty of the impact, of the Argo Transaction. Given that corporate allocations and shared services expenses were the only specific

---

[97] *Id.*, p. 8.

[98] *See also T.W. Phillips Gas & Oil Co. v. Pa. PUC*, 474 A.2d 355 (Pa. Cmwlth. 1984); *W. Pa. Water Co. v. Pa. PUC*, 422 A.2d 906, 908 (Pa. Cmwlth. 1980).

cost categories identified by I&E as the target justifying the adjustment, UGI Electric addresses I&E's proposal under the "Expenses" section.

I&E calculated a revenue requirement of $12.164 million using a traditional approach that investigated each claimed component of the Company's case, including expenses, plant in service, and capital costs, and made adjustments to certain components as described in testimony. I&E witness Bedasa then made a further adjustment to that entire revenue requirement. Originally, he proposed to reduce I&E's calculated revenue increase by 75% on the grounds that the Argo Transaction, which remains subject to litigation and Commission approval, is expected to close on April 1, 2027.[99] According to Mr. Bedasa, his adjustment would "allow for one quarter or 25% of the overall increase . . . matches the period that UGI Corporation projects to continue ownership of UGI Electric during the FPFTY."[100] However, Mr. Bedasa failed to recognize that the FPFTY is the 12 months ended September 30, 2027, not the 12 months ended December 31, 2027.[101] UGI Electric pointed out this error, and then Mr. Bedasa updated his proposal in his surrebuttal testimony such that I&E's calculated revenue increase should be reduced by 50%, instead of 75%.[102] Even still, I&E's updated proposal, which no party besides I&E has supported in this proceeding,[103] has several fundamental flaws and should be rejected.

First, I&E's adjustment presupposes Commission approval of the Joint Application, which is not appropriate.[104] As UGI Electric witness Rogers explained, "There is simply no guarantee that the Joint Application will be approved, even though UGI Electric maintains that the Commission should do so, or that the sale will be consummated at all or by the anticipated closing

[99] I&E St. No. 1, p. 10.
[100] I&E St. No. 1-SR, p. 5.
[101] UGI Electric St. No. 1, p. 6; UGI Electric St. No. 1-R, pp. 12-13.
[102] I&E St. No. 1-SR, p. 10.
[103] Tr. 261.
[104] UGI Electric St. No. 1-R, p. 11.

date."[105] On these points, I&E witness Bedasa agreed that, to his knowledge: (1) nothing requires the Commission to rule on the Joint Application by a certain date; (2) nothing guarantees that the Commission will approve the Joint Application; and (3) nothing guarantees that the Argo Transaction will close even if the Commission approves it.[106] Because the rates in this proceeding must be established at an appropriate cost-of-service to sustain ongoing operations, whether or not the Joint Application is approved, I&E's proposal is simply inappropriate.[107]

Second, despite I&E witness Bedasa's testimony that his adjustment addresses corporate allocations and shared services expenses, the actual effect of his adjustment presumes that upon divestiture, UGI Electric will stop its operations and infrastructure investment, because it disallows more than just the expenses claimed in this proceeding.[108] In fact, under cross-examination, Mr. Bedasa revealed this erroneous presumption behind his proposal when he stated that the new owner may or may not need to continue making capital investments as part of operating as an electric utility.[109] When asked what would happen if an electric utility were to cease making capital investments, Mr. Bedasa said, "Maybe the service provision will be – service provision will be a problem."[110] In actuality, no matter who owns UGI Electric, the owner must continue providing an adequate level of service and investing in its system, and the cost of service proffered in this proceeding reflects the appropriate level of operating costs to accomplish those objectives.[111]

Third, to the extent there are concerns about Argo's planned operations, the Joint Application proceeding is the appropriate forum for ensuring that ongoing investments and

[105] *Id.*
[106] Tr. 289.
[107] UGI Electric St. No. 1-R, p. 11.
[108] *Id.*
[109] Tr. 280-81. Mr. Bedasa did accept, however, that the new owner would need to continue incurring O&M expenses as part of operating as an electric utility. Tr. 282.
[110] Tr. 281.
[111] *Id.*, pp. 11-12.

existing regulatory commitments will be maintained and that the rates reflected at the time of the transaction are appropriate for meeting those commitments.[112] In fact, Mr. Bedasa conceded in his surrebuttal testimony that the Joint Application proceeding is the "appropriate forum" to address these issues.[113] That admission alone should result in denial of I&E's proposal.[114] Also, at the hearing, Mr. Bedasa agreed that the Commission has the authority to impose conditions on its approval of the Joint Application, such as a condition that Argo agrees to honor UGI Electric's commitments, plans, policies, projections, and calculations that are built into the FPFTY claimed costs and expenses.[115] Therefore, no need exists to address these issues now as part of this base rate case, when they can be fully vetted and addressed in the pending Joint Application proceeding.[116]

Fourth, Mr. Bedasa's updated proposal remains mathematically incorrect.[117] The adjustment would not actually reflect in rates the cost-of-service I&E has supported for the time that UGI Utilities would own and operate the electric division.[118] This is because a reduction of 50% of the revenue requirement would then go through the rate design, where rates are designed to recover the revenue requirement over a 12-month period.[119] So, rather than allowing UGI Utilities to recover the full cost of service for the months it would own and operate the electric division, I&E's adjustment would instead cause it to recover only 25% of those costs.[120]

---

[112] *Id.*, p. 12.
[113] I&E St. No. 1-SR, p. 9.
[114] UGI Electric St. No. 1-RJ, p. 16.
[115] Tr. 279.
[116] UGI Electric St. No. 1-RJ, pp. 11-12.
[117] UGI Electric St. No. 1-R, pp. 13-14; UGI Electric St. No. 1-RJ, p. 18.
[118] UGI Electric St. No. 1-R, pp. 13-14; UGI Electric St. No. 1-RJ, p. 18.
[119] UGI Electric St. No. 1-R, pp. 13-14; UGI Electric St. No. 1-RJ, p. 18.
[120] UGI Electric St. No. 1-R, pp. 13-14; UGI Electric St. No. 1-RJ, p. 18. As UGI Electric witness Rogers explained in her rejoinder testimony:

> [T]he proposed 50% adjustment is not mathematically correct when flowed through the ratemaking model. If we used the same simplified $12 million increase that I used in rebuttal, and ran it through the rate design, it would produce a revenue requirement increase

Fifth, Mr. Bedasa's allegations about uncertainty about the post-acquisition expenditures and capital structure should be rejected.[121] Mr. Bedasa only identified two cost categories of post-acquisition expenditures—corporate allocations and shared services expenses—when discussing the basis for his concern.[122] However, the total increase reflected in the revenue requirement for this case for UGI Corp. allocations and shared services provided by UGI Utilities is only $2.5 million.[123] Accordingly, if the uncertainty attaches half-way through the FPFTY as asserted by I&E witness Bedasa, then the total disallowance under his proposal should only be $1.25 million (i.e., 50% of the $2.5 million increase).[124] Yet, I&E witness Bedasa proposed to disallow more than $6 million, or nearly 5 times the amount of the "uncertain" costs he has pointed to in his testimony.[125] Moreover, it would be impossible to successfully operate the utility without many, if not all, of these costs, given that they are incurred for functions like payroll, IT, accounting, billing, regulatory compliance, financial and tax functions, insurance coverage, and many other components that are either necessary for almost any business or are specifically required for utility functions.[126] Further, specific to the Argo Transaction, the Joint Application contemplates a post-

> of $1 million per month to cover UGI Electric's cost of service. However, application of I&E witness Bedasa's adjustment would produce only $500,000 per month. Assuming rates in this proceeding are made effective on January 1, 2027, *i.e.* the end of the suspension period, this means that the Company will have substantially underearned in the first three months of the FPFTY (i.e., October, November, and December) and then I&E witness Bedasa's adjustment would cause continued under earning in the months until any divestiture occurs.

UGI Electric St. No. 1-RJ, p. 18. Thus, where I&E's analysis supports an increased cost recovery of more than $6 million over the first half of the FPFTY, I&E witness Bedasa's methodology would generate cost recovery of" $1.5 million across the first three months of 2027. *Id.* UGI Electric also notes that in his surrebuttal testimony addressing this issue, Mr. Bedasa acknowledged his proposal is not perfect with respect to rate design. I&E St. No. 1-SR, p. 9.

[121] *See* UGI Electric St. No. 1-RJ, pp. 13-15.

[122] I&E St. No. 1-SR, p. 5.

[123] UGI Electric St. No. 1-RJ, p. 15.

[124] *Id.* Notably, reducing I&E's calculated revenue increase of $12.164 million by $1.25 million would be $10.914 million, which is higher than the $10.7 million revenue increase under the non-unanimous settlement reached by UGI Electric and OSBA.

[125] *Id.*

[126] UGI Electric St. No. 1-RJ, pp. 14-15.

transaction period where UGI Utilities and UGI Corporation will continue providing shared services and corporate functions to Argo.[127] As for capital structure, the Joint Application clearly specifies that Argo will operate UGI Electric post-acquisition at a capital structure in line with the range of capital structures for peer electric utilities.[128] UGI Electric's filed case, as updated in rebuttal, reflects the best available evidence as to the expenses and capital that must be reflected in rates for a full year of operations.[129]

Sixth, I&E has failed to point to any precedent supporting its proposal. UGI Electric witness Rogers even testified that she is "aware of no such percentage reduction to I&E's revenue position being proposed in the recent PAWC rate case or the pending Peoples Natural Gas Company LLC ('Peoples') rate case, even though there is an ongoing, litigated proceeding regarding the merger of those utilities' ultimate parent holding companies."[130] "Therefore, I&E is taking a contrary position with respect to UGI Electric compared to other utilities that had base rate cases pending while a merger or acquisition was proposed for those utilities."[131]

For these reasons, I&E's proposed Argo Transaction adjustment has no merit and should be completely disregarded.

B. DEPRECIATION EXPENSE

UGI Electric's FPFTY depreciation expense claim is $12,593,413 and consists of $10,961,308 of annual accruals to recover original cost and $1,632,105 for the annual amortization of negative net salvage.[132] The calculation of annual depreciation expense and net salvage was prepared in accordance with standard procedures long accepted by this Commission.[133]

---

[127] *Id.*, p. 15.
[128] UGI Electric St. No. 1-R, p. 12.
[129] *Id.*
[130] UGI Electric St. No. 1-RJ, p. 12.
[131] *Id.*
[132] UGI Electric St. No. 6, p. 15.
[133] *See id.*, pp. 15-21.

OCA proposes a disallowance of $1,587,004 in depreciation expense based on two proposed adjustments: (1) the conversion from the ELG to the ALG method for vintages after 1982; and (2) adjustments to the service lives for plant Accounts 364 – Poles, Towers, and Fixtures, 365 – Overhead Conductors and Devices, and 368.1 – Transformers.[134]

As explained in the following section, OCA's proposal to use the ELG procedure conflicts with longstanding precedent in Pennsylvania that has been affirmed twice in the last year alone.[135] UGI Electric has used ELG for more than four decades.[136] OCA's approach, on the other hand, has been repeatedly rejected by the Commission because, among other reasons, it would shift to future customers the costs that should be charged to current customers.[137] OCA's approach will create higher, and continually increasing, rate base in the future and will result in increased rates to customers over time compared to the continued use of the ELG procedure.[138] Further, the ELG procedure provides a more precise calculation of depreciation expense, as even OCA witness Garren admitted in his testimony.[139] Finally, ELG continues to be more precise over time because the Commission has specific requirements in place that regularly assess and reevaluate whether the life curves being used appropriately reflect the operational performance of classes of assets.[140]

---

[134] *See* OCA St. 4, pp. 5-6; OCA St. 2, p. 14. OCA witness Garren's direct testimony showed a depreciation expense adjustment of approximately $1.8 million, whereas OCA witness Mugrace relied on a depreciation expense adjustment of $1,587,004 to develop OCA's proposed revenue requirement. *See* OCA St. 4, pp. 5-6; OCA St. 2, p. 14. In his surrebuttal testimony, Mr. Garren clarified that the $1,587,004 figure is the adjustment for the FPFTY, while his direct testimony described the amount as of the end of the FTY. *See* OCA St. 4SR, p. 9.

[135] *See Columbia Gas 2025 Order*, pp. 106-11; *Pa. PUC v. Pennsylvania-American Water Co.*, Docket Nos. R-2025-3057983, *et al.*, pp. 162-66 (Order entered July 27, 2026) ("*PAWC 2026 Order*").

[136] UGI Electric St. No. 6-R, p. 20.

[137] *See Columbia Gas 2025 Order*, pp. 109 (finding that "a switch to the ASL procedure would increase rate base in comparison to the continued use of the ELG procedure (by lowering accumulated depreciation), leading to higher rates in the long run"); *PAWC 2026 Order*, pp. 163-64 (concluding that the Commission's reasoning on this point in *Columbia Gas 2025 Order* was "persuasive here as well" and declaring that the Commission "will not adopt a depreciation procedure change solely to produce short-term rate mitigation where the evidence shows that the change may increase long-term costs and shift responsibility to future customers").

[138] UGI Electric St. No. 6-R, pp. 20-21.

[139] OCA St. 4SR, p. 5.

[140] UGI Electric St. No. 6-R, pp. 25-26.

Thus, as the Commission has long recognized, ELG is both more accurate theoretically and as applied to utility operations in Pennsylvania.

OCA has offered no justification for its proposed change other than to produce a short-sighted reduction to rates. As UGI Electric witness Wiedmayer plainly stated at the evidentiary hearing, OCA's proposal is "short-term gain for long-term pain."[141] Thus, consistent with the Commission's recent rulings in the *Columbia Gas 2025 Order* and the *PAWC 2026 Order*,[142] and as supported thoroughly by the Company's testimony in this proceeding, OCA's proposal to adopt the ASL procedure should be rejected.

Moreover, OCA's proposal to change the service lives for certain plant accounts should also be rejected because they are unrealistic and not based on an actual service life study.[143] Also, the Commission should not rely on Mr. Garren's calculations because they contain several fundamental errors.

1. Plant Service Life

OCA proposes longer service lives for several accounts as compared to the Company's proposed service lives. A summary of the proposals was presented in Table 1 of UGI Electric witness Wiedmayer's rebuttal testimony, which is reproduced below[144]:

Table 1: Comparison of Company Proposed and OCA Proposed Survivor Curves

Account	Currently Approved	Company Proposed	OCA Proposed
364, Poles, Towers and Fixtures	59-R2.5	59-R2.5	63-R2
365, Overhead Conductors and Devices	58-R1.5	58-R1.5	65-R1.5
368.1, Transformers	45-S1	45-S1	50-S0.5

[141] Tr. 206.
[142] *See* notes 135 and 137, *supra*.
[143] UGI Electric St. No. 6-R, p. 30.
[144] *Id.*

As Mr. Wiedmayer explained, Mr. Garren's proposed service lives are unrealistic expectations of the future service lives of the Company's assets.[145] Mr. Garren's proposal results in service life estimates that are unreasonably long for the actual assets studied and the Company's current and future operating environment.[146] Mr. Garren's proposed service lives should be rejected because they are not based on any independent service life study.[147] In fact, Mr. Garren did not conduct an independent service life study at all in this proceeding.[148] Beyond that, Mr. Garren's alleged support for these specific proposed adjustments is flawed, as explained in the following sections.

a. OCA's Proposed Change to the Survivor Curve for Account 364 – Poles, Towers, and Fixtures – Structures and Improvements Is Unreasonable

The currently approved estimate for Account 364 is a 59-R2.5 survivor curve.[149] However, OCA proposed to use a 63-R2 curve instead.[150]

The survivor curve estimate proposed by OCA witness Garren, i.e., 63-R2, is too long for this account.[151] This account includes poles, crossarms, guy wires, anchors, etc.[152] Poles are the largest property unit category in terms of investment and the asset group with the longest service life compared to the other asset groups in the account.[153] Poles and crossarms are nearly exclusively made from wood, which is a natural product that will rot and decay over time.[154] In addition to age-related decay, poles are retired for a variety of reasons, such as storm damage, fire

[145] *Id.*
[146] *Id.*
[147] UGI Electric St. No. 6-R, p. 30.
[148] Tr. 316.
[149] UGI Electric St. No. 6-R, p. 32.
[150] OCA St. 4, p. 30.
[151] UGI Electric St. No. 6-R, p. 33.
[152] *Id.*
[153] *Id.*
[154] *Id.*

damage, relocations related to street widening and other projects involving the right of way, woodpecker damage, clearance issues requiring a taller pole, voltage conversions, and other capacity-related projects requiring a larger class pole, and third-party damage (e.g., vehicle collisions).[155] Some of these retirement causes are condition-based, related to age, and some of the retirements occur randomly and can affect the retirements of poles at any age.[156]

OCA proposed a survivor curve estimate 63-R2 that indicates an average service life for Account 364 of 63 years and a maximum life of 117 years.[157] Both the average life and maximum life related to the OCA's proposed 63-R2 survivor curve estimate are too long for wood poles that are outside supporting relatively heavy overhead conductors and devices.[158] UGI Electric witness Wiedmayer noted that "[f]rom a safety and reliability perspective, UGI Electric would almost certainly retire a wood pole before it reached 117 years."[159] Additionally, OCA witness Garren appears to ignore the previous and currently approved survivor curves (56-R2.5 and 59-R2.5, respectively) used for Account 364.[160] Also, the 63-year average service life proposed by OCA is beyond the typical range of service lives (i.e., 45-60 years) used by other electric companies.[161] In fact, the current survivor curve estimate used by UGI Electric is the 59-R2.5, which is at the top end of the typical range for wood poles.[162] Therefore, any recommendation to use a survivor curve longer than 60 years, on average, for wood poles, let alone OCA's proposal to increase the service life by 7 years compared to the average service life used in the prior life study, is inappropriate.[163]

---

[155] *Id.*
[156] *Id.*
[157] *Id.*
[158] *Id.*
[159] *Id.*
[160] *Id.*
[161] *Id.*, pp. 33-34.
[162] *Id.*, p. 34.
[163] *Id.*

b. OCA's Proposed Survivor Curve for Account 365 – Overhead Conductors and Devices Has No Merit

The currently approved estimate for Account 365 is a 58-R1.5.[164] The Company continues to support this estimate, but OCA proposed a 65-R1.5 curve.[165] OCA witness Garren argued that such a curve is justified because the results of the historical life analysis are mostly inconclusive.[166] That is, the original survivor curve, a.k.a. the stub survivor curve, indicates a survival pattern that is atypical and one that is not easily modelled by one of the Iowa curves.[167] The reason for this is that the retirement rates for plant older than 50 years seem to flatten out instead of increasing.[168] This is counterintuitive as the expectation would be for increasing retirement rates as plants, such as overhead conductors and devices, age.[169] When the results of the historical life analysis are inconclusive, other relevant factors, such as the currently approved survivor curve estimate, the prior survivor curve estimate, changes in technology, or the asset mix of an account, company plans, service expectations of company engineering management, service life estimates used by other electric companies, etc., need to be considered more heavily.[170]

OCA's proposed curve should be rejected. First, it would result in too large of an increase for a relatively large mass plant account to experience over a 5-year period.[171] Under the Commission's regulations, UGI Electric updates its service life studies every 5 years.[172] The prior estimate was the 55-R1 curve, so the current approved estimate (i.e., the 58-R1.5 curve) is a gradual 5% increase in the average service life estimate, which is a typical-sized increase over a

[164] *Id.*
[165] *Id.*
[166] *Id.*, p. 35.
[167] *Id.*
[168] *Id.*
[169] *Id.*
[170] *Id.*
[171] *Id.*
[172] *Id.*

5-year period since the prior service life study was performed.[173] Conversely, OCA proposes a 65-year average service life, which represents an 18% increase over the course of the 5-year study period.[174]

Second, the asset mix for Account 365 continues to change over time, especially in recent years, and this transformation is expected to continue into the future, as the Company modernizes its electrical system and adds new Distribution Automation devices to improve reliability and safety.[175] As an example, as part of its Long-Term Infrastructure Improvement Plan ("LTIIP"), UGI Electric continues its Line Sectionalizing Program, which identifies locations to install fuses, disconnects, and other devices to limit the number of customers affected when line damage occurs.[176] In Fiscal Year 2025 alone, UGI Electric expects to add 18 new sectionalizing points, including fuses, solid blade disconnects, circuit reclosers, and other devices, as part of its annual automation and sectionalizing plan.[177] These newer assets, which are part of the Line Sectionalizing Program, have service lives that are shorter than those of aluminum overhead conductors, which are the main asset group within the account.[178] As such, the average service life for this account should experience downward pressure in the future due to these newer, shorter-lived assets being added to the account.[179]

Third, OCA's proposed 65-year average service life for this account is beyond the typical range of service lives used by other electric companies for this account. As UGI Electric witness Wiedmayer explained, "[a]lthough there are some outliers, the typical range of average service lives used by other electric companies is 45 to 60 years," and "the maximum life of OCA witness

[173] *Id.*
[174] *Id.*
[175] *Id.*, p. 36.
[176] *Id.*
[177] *Id.*
[178] *Id.*
[179] *Id.*

Garren's proposed survivor curve estimate, a 65-R1.5, is 130 years."[180] Given that the oldest asset in this account, as shown in the life table, is 97 years, OCA's survivor curve is nearly 30% higher than the oldest asset, showing that it is unreasonably long by a substantial margin.[181]

c. OCA's Proposed Adjustment to the Survivor Curve for Account 368.1 – Transformers

The currently approved estimate for Account 368.1 is a 45-S1 survivor curve.[182] The Company continues to support that curve, but OCA proposed the use of a 50-S0.5 curve.[183] OCA's reasoning is that the 50-S0.5 curve is the best mathematical fit.[184]

OCA's proposal should be denied. The best mathematical fit is not the determining factor. Other factors, including the currently approved survivor curve estimate, the prior survivor curve estimate, the service life expectations from UGI engineering management, service life estimates used by other electric companies, and an examination of the Company's property accounting data used in the historical service life analysis, should be considered.[185] OCA witness Garren's survivor curve selection considers none of these factors and, instead, merely reflects a purely mathematical fit.[186]

In addition, OCA's proposed survivor curve estimate of 50-S0.5 puts the average service life at the top end of the typical range of estimates used by other electric companies.[187] The typical range of service lives used for Account 368.1 is 35-50 years.[188] As the prior survivor curve estimate was the 43-S1, the current approved estimate (i.e., the 45-S1 curve) reflects a 5%

[180] *Id.*
[181] *Id.*, pp. 36-37.
[182] *Id.*, p. 37.
[183] *Id.*
[184] OCA St. 4, p. 32.
[185] UGI Electric No. 6-R, pp. 37-38.
[186] *Id.*, p. 38.
[187] *Id.*
[188] *Id.*

change.[189] As UGI Electric witness Wiedmayer testified, "This gradual change is characteristic of how most large mass plant account's average service lives behave from one 5-year service life study to the next."[190] By comparison, OCA witness Garren's proposed survivor curve estimate, the 50-S1, represents a 16% increase in the average service life, which is too large of an increase for one 5-year study period.[191]

Moreover, the assets included in Account 368.1 are primarily pole top line transformers, which are replaced due to age-related factors, such as corrosion of steel tanks and equipment failures, as well as non-age-related factors, such as storm damage from lightning, capacity upgrades, relocations, and third-party damage.[192] Since 2016, however, there have been relatively few retirements recorded to this account.[193] This is atypical for an account in which additions and retirements occur every year.[194] This data anomaly regarding fewer than normal recorded retirements since 2016 is reflected in the life tables upon which OCA witness Garren's survivor curve estimate is based.[195]

Lastly, the Company's most recent service life study report was submitted to the Commission in May 2022 based on electric plant in service as of September 30, 2021, and the service life analysis that was performed, which excluded the plant accounting transactions from 2006 and later (Experience Band 1960-2005), indicated the service lives were in the 37- to 40-year range, with the best fit curve, a 38-S1.[196] This is much lower than the 50-year average service life estimated by OCA witness Garren.[197]

---

[189] *Id.*
[190] *Id.*
[191] *Id.*
[192] *Id.*
[193] *Id.*
[194] *Id.*
[195] *Id.*, pp. 38-39.
[196] *Id.*, pp. 32, 39; UGI Electric St. No. 6, p. 7.
[197] UGI Electric St. No. 6-R, p. 39.

For these reasons, OCA failed to present credible evidence to support changing the existing service lives that have been approved for these accounts, and their proposed adjustments to arbitrarily elongate the service lives should be rejected.

2. Equal Life Group and Average Service Life Procedure

a. Description of ELG and ASL Procedures

Before addressing OCA's proposal to force UGI Electric to switch from the ELG procedure to the ASL procedure, it is critical to understand their distinctions.

For the ELG procedure, a group of property listed by vintage (e.g., a group of meters installed within the same fiscal year) is subdivided into groups having equal service lives.[198] The size of these "equal life groups" is based on the estimated survivor characteristics of the account.[199] For example, UGI Electric replaces 1,500 to 3,000 meters per year.[200] Some of these meters will experience a service life of 1 year, some 2 years, some will experience the maximum expected life of 38 years, and some will experience lives between 2 and 38 years.[201] Depreciation can then be calculated for each equal life group based on the straight line method, meaning that an equal amount of the group's service value is recorded as depreciation expense in each year of service.[202] The total depreciation for an account is then the summation of the calculated depreciation for each equal life group.[203] The ELG depreciation calculation procedure mathematically estimates the life for each unit in the account and then depreciates each unit over its expected life based on the survivor curve estimate for an account.[204]

---

[198] UGI Electric St. No. 6-R, p. 3.
[199] *Id.*
[200] *Id.*
[201] *Id.*
[202] *Id.*
[203] *Id.*
[204] *Id.*

While the ELG procedure calculates depreciation for each equal life group, the ASL (or ALG) procedure depreciates every asset within an account over the average life of the entire account.[205] So, using the prior example of meters, even though meters will be retired in years 1, 2, and between years 2 and 38, ALG depreciates all assets as if they will retire at the same time far into the future. Using equal life groups, rather than an average life, as the basis for depreciation provides a more precise calculation that better matches capital recovery of the group of assets with consumption of the assets' service value by depreciating assets that have shorter lives than the average over their shorter lives (and the longer-lived assets over their longer lives), as opposed to depreciating all assets over a single average life for the group.[206] Using an average life under the ALG procedure for the assets that experience service lives shorter than the average life shifts costs to future customers by creating a deferral in the capital recovery process.[207] This deferral undermines the ratemaking principle of intergenerational equity, which is the principle that customers benefiting from the use of a group of assets should pay for them and not shift the cost burden from current customers onto future customers.[208] The ALG procedure defers proper cost recovery of shorter-lived assets by using an average life to push the cost responsibility beyond the end of the life of many assets.[209]

When comparing these two procedures, the ELG procedure appropriately matches cost recovery to service consumption of the asset, thereby better ensuring that current customers are paying for the assets in use. UGI Electric witness Wiedmayer provided a simple example of the merits of the ELG procedure:

[205] *Id.*, p. 4.
[206] *Id.*
[207] *Id.*
[208] *Id.*
[209] *Id.*

In this example, each unit costs $1,000. Unit A will be in service for 5 years, and Unit B will be in service for 15 years. There is no net salvage for these units.

For the ASL procedure, the average service life for the two units is 10 years ([5+15]/2), so the annual depreciation rate is 10% (1/10) throughout the lives of both units. For the first five years, the total annual depreciation amount is $200 ($2,000 x 10%). At the end of year 5, the total annual accruals for the account are $1,000 ($200 x 5). Unit A is then retired, which results in a reduction in the accumulated depreciation of $1,000. At the start of year 6, Unit B remains in service with an accumulated depreciation balance of $0. At this point, one-third of Unit B's service life has expired, and $1,000, an amount equal to its full original cost, must still be recovered through future depreciation accruals.

For the remaining 10 years, $100 ($1,000 x 10%) of annual expense is accumulated in depreciation, for a total of $1,000 when Unit B is retired at age 15. Thus, at the time of Unit B's retirement, the Company will have fully recovered the total depreciable cost of both units. However, at the end of year five, only one unit remained in service with two-thirds of its life expectancy left, but with 100% of that unit's original investment still to be recovered. As a result, the ASL procedure is ineffective in matching cost recovery to the actual consumption of the asset. This is a characteristic deficiency of the ASL procedure.

When depreciation is determined using the ELG procedure, the pattern of cost recovery better matches actual consumption. Using the same two-unit example, the annual depreciation expense under the ELG procedure is calculated by summing the annual expense for each equal life group. In this case, there are two equal life groups – one for Unit A, which has a life of 5 years, and one for Unit B, which has a life of 15 years. The annual depreciation rate for Unit A is 20% (1/5) and for Unit B is 6.67% (1/15). Thus, the annual accruals for years 1 through 5 will be $200 ($1,000 x 20%) for the first equal life group (Unit A) summed with $66.67 ($1,000 x 6.67%) for the second (Unit B), or $266.67 in total. At the end of year 5, when Unit A is retired, the total accruals would be $1,333.33 ($266.67 x 5). The composite ELG rate for the vintage comprised of two units would be 13.33%. The retirement of Unit A results in a reduction of $1,000 in accumulated depreciation, and at the start of year 6, the $1,000 original cost of Unit B remains with $333.33 in accumulated depreciation. Thus, with one-third of Unit B's life consumed, accumulated depreciation is exactly one-third of the original cost for this unit.

> In the years 6 through 15, the annual depreciation expense is $66.67 for a total of $666.67 over the 10-year period. After the retirement of Unit B, the accumulated depreciation is $0 ($1,000 of accruals less the $1,000 retirement of Unit B), and the full recovery of both units has been obtained.[210]

The foregoing examples clearly demonstrate that the ELG procedure better matches the cost recovery of both units with their service lives.[211] Under the ELG procedure, Unit A is fully recovered when retired at the end of year 5, while Unit B is one-third through its service life and has had one-third of its cost recovered.[212] This contrasts with the ASL procedure, in which accumulated depreciation is $0 at the end of year 5, even though the only unit remaining in service has consumed one-third of its service life.[213] Also, rate base under ELG at the end of year 5 is $667 (=$1,000-$333) versus $1,000 (=$1,000 - $0) under ASL.[214] Thus, this example illustrates that in order for the rate base to be correct, annual depreciation needs to be correct (which it is using the ELG model).[215]

The same principles apply when ELG is applied to large property groups with many units of property.[216] The survivor curve developed for each property account is used to divide an account into equal life groups.[217] Under the ELG procedure, the survivor curve determines the percentages of the property account that is in each equal life group, which allows for the calculation of the annual accrual for the entire property group.[218] In contrast, under the ASL procedure, the depreciation expense for all property in the account is calculated based on the average service life

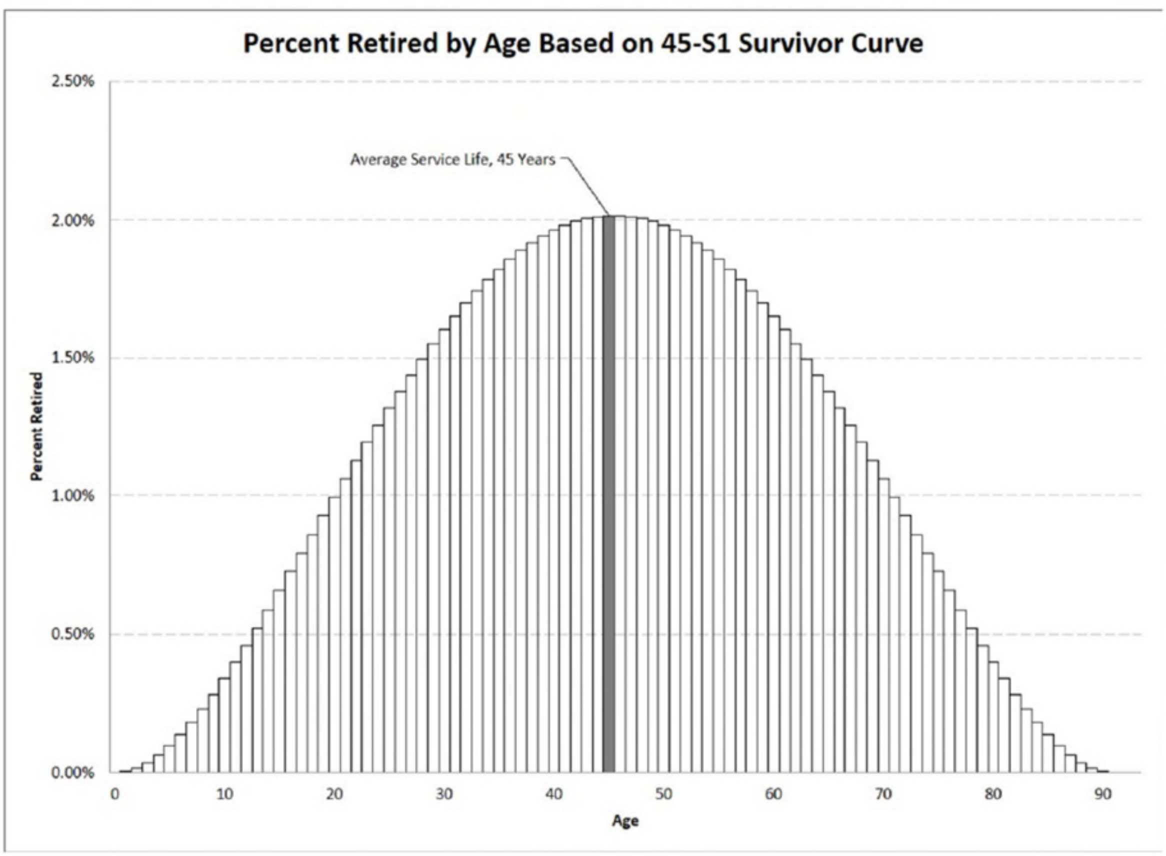
---

[210] *Id.*, pp. 6-8.
[211] *Id.*, p. 8.
[212] *Id.*
[213] *Id.*
[214] *Id.*
[215] *Id.*
[216] *Id.*, p. 10.
[217] *Id.*
[218] *Id.*

of the entire group.[219]. In so doing, the ASL procedure fails to take into account the reality of dispersion of retirements in a large group.

In actual utility operations, only a small percentage of a plant account will be retired at the average service life. To demonstrate this, Mr. Wiedmayer provided a chart of the frequency curve for the 45-S1 survivor curve, which shows the percentage of property in this account that will be retired at each age, based on the estimated survivor curve.[220] This percentage is also the size of each equal life group.[221]

Figure 2. Percent Retired by Age Based on 45-S1 Survivor Curve



[219] *Id.*
[220] *Id.*, p. 11.
[221] *Id.*

33062783v1

The ELG procedure recognizes this dispersion and allocates costs for each equal life group over the expected life for that group.[222] The service lives indicated by the 45-S1 survivor curves range from 1 year to 90 years.[223] Accordingly, the ELG procedure allocates cost in a manner that approximates the result of each asset being depreciated over its actual life.[224] In contrast, the ASL procedure depreciates every unit of property within an account over the same life, that is, the account's average life.[225] The average service life for Account 368.1 is 45 years.[226] As the above Figure 2 from UGI Electric St. No. 6-R shows, this average life will be incorrect most of the time – in this example, the average life will be the wrong life for 97.98% of the assets.[227]

Based on the foregoing, and as put by Robley Winfrey who developed the Iowa survivor curves at Iowa State University and is considered a pioneer in utility depreciation practices, ELG is "the only mathematically correct procedure."[228]

b. Nothing Credible Supports OCA's Proposal for UGI Electric to Switch from Its Long-Standing Use of the ELG Procedure to the ASL Procedure

OCA offers various arguments in support of its proposal to change from the use of the ELG procedure to the use of the ASL procedure. These arguments are without merit and should be rejected. OCA's proposal contradicts 44 years of Commission precedent approving the use of ELG for ratemaking purposes,[229] including most recently in the *Columbia Gas 2025 Order* in December 2025 and *PAWC 2026 Order* in June 2026, when the Commission expressly rejected the very same proposal that OCA is making here.[230]

---

[222] *Id.*, p. 12.
[223] *Id.*
[224] *Id.*
[225] *Id.*
[226] *Id.*
[227] *Id.*
[228] *Id.*, pp. 4-5.
[229] UGI Electric St. No. 1-RJ, p. 11.
[230] *See Columbia Gas 2025 Order*, pp. 106-11; *PAWC 2026 Order*, pp. 162-66.

OCA witness Garren contends that the ELG procedure causes current customers to pay more than future customers.[231] This argument is true only by comparing ELG and ASL depreciation rates at a spot in time and is harmful to customers in the longer term. As Mr. Wiedmayer explained:

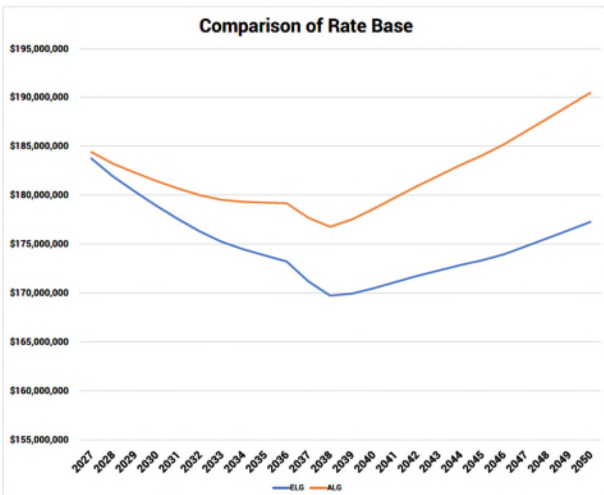
> Current customers benefit from the continued use of ELG because rate base is much lower today than had ASL been used since 1982. The more precise recovery through ELG benefits customers over time because shorter-lived assets are correctly recovered over their useful lives, resulting in a lower rate base and lower return on rate base that exceeds the higher annual depreciation expense related to ELG. Further, the alleged benefit proposed by Mr. Garren, of lower short-term depreciation rates, is the result of the *change* in procedure, not from the procedure itself. Over time, the ASL depreciation rates will result in a higher rate base and higher overall cost to customers.[232]

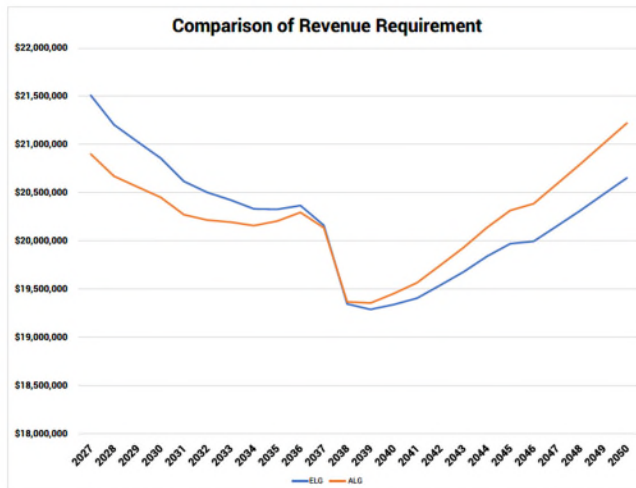
What OCA's short-term focus fails to recognize is that depreciation rates and rate base are inversely linked. A change to a lower depreciation rate, through the adoption of ASL in this case, produces a short-term reduction to rates.[233] However, the lower depreciation rate creates a higher rate base, as the depreciation reserve is depressed in comparison to the continued use of the ELG procedure.[234] Because average depreciation rates for a utility are typically in the 2% to 3.5% range and the return on rate base is higher (typically 7% to 8% or more), higher depreciation expense tends to produce lower customer rates over time.[235]

To illustrate this point, UGI Electric witness Wiedmayer prepared a roughly 25-year forecast of plant and depreciation reserve balances for UGI Electric under the two scenarios of maintaining the currently approved ELG procedure or changing to the ASL procedure.[236] This

[231] OCA St. No. 4, pp. 23-24.
[232] UGI Electric St. No. 6-R, p. 18.
[233] *Id.*, p. 20.
[234] *Id.*, p. 19.
[235] *Id.*
[236] UGI Electric St. No. 6-RJ, p. 2; UGI Electric Exhibit JFW-1RJ.

forecast demonstrates that the revenue requirement using the ASL procedure is lower than the ELG procedure for the first 10 to 12 years, after which a crossover occurs, as the return on a larger rate base, using the ASL procedure, overwhelms the lower depreciation expense calculated using the ASL procedure.[237] Below are the figures from Mr. Wiedmayer's forecast from UGI Electric Exhibit JFW-1RJ:





Thus, the ELG method is more beneficial to customers over time as it provides more stable and lower customer rates over the life of the assets.

UGI Electric has been using the ELG procedure for 44 years.[238] If UGI Electric had used ALG for the past 44 years instead of ELG, accumulated depreciation would have been much lower today and rate base, correspondingly, much higher today.[239] Specifically, UGI Electric witness Wiedmayer testified that rate base today "is significantly less, i.e., approximately $20 million, than had the ALG procedure been used" over the past 40 years.[240] Therefore, customers today pay

[237] UGI Electric St. No. 6-RJ, p. 2.
[238] UGI Electric St. No. 6-R, p. 43.
[239] *Id.*
[240] *Id.*, p. 26.

lower rates than if ASL had been used during the years since ELG's adoption.[241] As a result, it has been in customers' interest, not only to use ELG but also to use it consistently.[242]

In addition, the use of the ELG procedure does not produce intergenerational inequity.[243] As UGI Electric Wiedmayer explained, "[t]he very nature of the ELG procedure more precisely calculates depreciation expense for assets with an identical service life within a group known as an equal life group (i.e., one life for each equal life group) and sums that expense to develop an annual depreciation accrual rate applicable to the vintage."[244] All vintages are summed, and a composite ELG accrual rate is determined for each plant account.[245] As a result, the ELG procedure more appropriately matches the recovery of the assets' cost to the period of time over which it provides a service to ratepayers.[246]

To the contrary, the Commission has recognized that switching from ELG to ASL can produce intergenerational inequity. As the Commission determined in the recent *PAWC 2026 Order*, "[w]e will not adopt a depreciation procedure change solely to produce short-term rate mitigation where the evidence shows that the change may increase long-term costs and shift responsibility to future customers."[247] Likewise, in the *Columbia Gas 2025 Order*, the Commission observed, "[w]e further agree with the Company that there is a strong argument that the ASL procedure results in intergenerational inequity."[248] OCA has made no adjustment to its approach in this case to address the Commission's criticism of its methodology in either of these recent rate case decisions.

---

[241] *Id.*, p. 20.
[242] *Id.*
[243] *Id.*, pp. 23-25.
[244] *Id.*, p. 23.
[245] *Id.*
[246] *Id.*
[247] *PAWC 2026 Order*, p. 165.
[248] *Columbia Gas 2025 Order*, p. 110.

OCA witness Garren contends that for a utility to properly apply ELG, it would need to revise depreciation rates frequently.[249] This argument is without merit. First, UGI Electric witness Wiedmayer explained that Mr. Garren's assumption is incorrect, as the same criticism applies to the ASL procedure when the remaining life technique is used.[250] Second, the criticism is moot because the Commission's regulations require utilities operating in Pennsylvania, including UGI Electric, to calculate and file updated depreciation rates annually.[251]

Finally, OCA's reliance on other jurisdictions' use of the ASL procedure is irrelevant and was specifically rejected by the Commission in the *PAWC 2026 Order*.[252] In the *PAWC 2026 Order*, the Commission stated that it is "not persuaded by the OCA's reliance on the use of ALG/ASL by other jurisdictions or other utilities."[253] Ratemaking differences among jurisdictions are not unusual, and this Commission has rejected to be bound by approaches used in other jurisdictions.[254] What is relevant is that ELG is the predominant method used in Pennsylvania for gas, electric and water utilities, and has been used consistently for over 40 years.[255] In fact, Mr. Garren himself admits that ELG is the "theoretically superior" procedure.[256] Further, even if other jurisdictions' approaches are considered, UGI Electric witness Wiedmayer explained that other jurisdictions do use the ELG procedure and others are moving to adopt ELG.[257]

For these reasons, the Commission should adhere to its recent determinations in the *Columbia Gas 2025 Order* and *PAWC 2026 Order* and, based on the record in this proceeding,

---

[249] OCA St. 4, p. 25.
[250] UGI Electric St. No. 6-R, p. 25.
[251] *Id.*, pp. 25-26.
[252] OCA St. 4SR, pp. 7-8.
[253] *PAWC 2026 Order*, p. 165.
[254] *See Columbia Gas 2025 Order*, p. 110.
[255] UGI Electric St. No. 6-R, pp. 14-15.
[256] OCA St. 4SR, pp. 4-5.
[257] UGI Electric St. No. 6-R, pp. 14-15.

reject the OCA's proposal to force UGI Electric to switch from the ELG procedure to the ASL procedure.

c. OCA Witness Garren's Calculations Contain Errors that Render Those Calculations Unreliable and Unusable

OCA witness Garren's calculation of depreciation expense should not be relied upon because it contains "significant problems."[258] First, Mr. Garren's recommended depreciation expense claim is based on the FTY balances as of September 30, 2026, rather than the FPFTY balances as of September 30, 2027.[259] Mr. Garren tried to defend his use of the September 30, 2026 balance by claiming that it coincided with the most recent year included in the service life study, but that too is incorrect because the service life study report was submitted to the Commission in May 2022 based on accounting data through Fiscal Year-end 2021.[260]

Second, OCA witness Garren used the same accumulated depreciation amounts as the Company for his depreciation expense determination as of September 30, 2026, even though his recommendation to use the ALG procedure results in an annual reduction to depreciation expense, according to Mr. Garren, of $1.831 million.[261] Mr. Garren's calculations are incorrect because he is using depreciation reserve balances that are too high and are based on projected book depreciation accruals using the ELG procedure.[262] He should have projected the accumulated depreciation balances for the FTY and FPFTY using depreciation rates that were determined using his recommended ALG procedure and the three accounts where he recommended longer service lives.[263] Instead, he elected to use the same projected accumulated depreciation amounts as

---

[258] *Id.*, p. 26; *see also id.*, pp. 26-29; UGI Electric St. No. 6-RJ, pp. 9-11.
[259] UGI Electric St. No. 6-R, p. 26.
[260] UGI Electric St. No. 6-RJ, p. 10.
[261] UGI Electric St. No. 6-R, pp. 26-27.
[262] *Id.*, p. 27.
[263] *Id.*

determined by the Company using the ELG procedure.[264] Therefore, his accumulated depreciation amounts at September 30, 2027, should have been approximately $3.662 million less ($1.831 million less per year * 2 years = $3.662 million).[265]

Lastly, OCA witness Garren failed to conduct a full service study, even though his proposal lengthened the service lives for three accounts.[266] Mr. Garren said that this was intentional, as he did not have adequate time to perform a full service life study.[267] However, his failure to perform the study is nonetheless a shortcoming with his testimony that renders it insufficient to support a Commission determination.[268]

3. Conclusion Regarding Depreciation Expense

The use of the straight-line, remaining life depreciation method, with the ELG procedure, has been a common and long-accepted depreciation process in Pennsylvania. OCA has not offered evidence that justifies a change to the ASL procedure and has failed to address recent criticism made by the Commission as to its proposed methodology. Additionally, OCA's proposed depreciation calculation is based on Mr. Garren's incorrect adjustments to the service lives of certain plant accounts and contains several fundamental errors as described above. Thus, the Company's depreciation expense claim should be accepted without modification.

C. RATE CASE EXPENSE

The Company's revenue requirement increase included a rate case expense claim of $536,000.[269] This amount was calculated by normalizing the Company's expected rate case

---

[264] *Id.*
[265] *Id.*
[266] *Id.*
[267] OCA St. 4SR, p. 10.
[268] UGI Electric St. No. 6-RJ, p. 10.
[269] UGI Electric St. No. 2, p. 12; UGI Electric Exhibit A – Fully Projected (REBUTTAL), Schedule D-10.

expenses of approximately $1.071 million over a two-year period.[270] The Company utilized a two-year normalization period because it anticipates filing another rate case in two years.[271]

I&E proposed to decrease the Company's rate case expense claim from $536,000 to $389,000, asserting that a 33-month normalization should be used instead of the Company's two-year normalization period.[272] OCA originally proposed to decrease the Company's rate case expense claim to $364,237 based on the use of a 5.5-year normalization period.[273] However, after the Company pointed out the flaws with OCA's position in its rebuttal testimony,[274] OCA proposed the utilization of a three-year normalization period in its surrebuttal testimony.[275] Based on that three-year normalization period, OCA recommended that UGI Electric's rate case claim be reduced by $179,000 to $357,000.[276] Both I&E and OCA argued that their adjustments should be granted based on the Company's historic rate case filing frequency.[277]

UGI Electric maintains that I&E's and OCA's reliance upon historic filing frequency should be rejected. Setting rates is a prospective exercise, as the Company's revenue increase was based on the FPFTY.[278] As the Company explained in testimony, its expectation that it will file another base rate case in two years is based upon an assessment of future capital requirements, continued information system improvements, and the need to continue modernizing its system through the replacement of aged infrastructure through its LTIIP.[279] UGI Electric's current base

---

[270] UGI Electric St. No. 2, p. 12; UGI Electric Exhibit A – Fully Projected (REBUTTAL), Schedule D-10.

[271] *Id*. The Company further explained that it had already decreased this amount from the budgeted amount in light of updated costs.

[272] I&E St. No. 1, pp. 9-10.

[273] *See* OCA St. 2, pp. 42-43.

[274] *See* UGI Electric St. No. 2-R, pp. 8-10.

[275] *See* OCA St. 2SR, p. 14.

[276] *See id.*, p. 14; OCA Exhibit SR-DM-15.

[277] *See* I&E St. No. 1, pp. 9-10; I&E St. No. 1-SR, pp. 10-12; OCA St. 2, pp. 42-43; OCA St. 2SR, p. 14.

[278] *See* UGI Electric St. No. 1, p. 6; *Popowsky v. Pa. PUC*, 642 A.2d 648, 650 (Pa. Cmwlth. 1994) ("Ratemaking, by its nature, is prospective.") (citation omitted); *see also Butler Township*, 473 A.2d at 222-223 (affirming that while historic practice was informative it need not be the exclusive factor relied upon by the Commission).

[279] UGI Electric St. No. 2-R, p. 8.

rate case, and its anticipated need for future base rate cases, is overwhelmingly driven by important replacement and betterment investments that will allow the system to continue to function safely and reliably, as well as investments that will make the Company more efficient and allow it to provide high-quality service to its customers.[280]

For these reasons, the Company's rate case expense claim of $536,000 is justified by the record presented in this case.

D. CREDIT AND COLLECTIONS EXPENSE

UGI Electric's revenue requirement reflects the costs the Company incurs to initiate and complete required collections activities conducted consistent with 52 Pa. Code § 56.93-56.100.[281] OCA proposed to decrease the Company's credit and collection expenses by $470,514, based on a sharing of 50% of this expense with customers due to an alleged "inefficiency and ineffectiveness" of the Company's expenditures.[282] As alleged support, OCA witness Colton criticized the Company for applying its collection practices uniformly across all customer classes, and, apart from suspending terminations from December 1 through March 31 for confirmed low-income customers, not utilizing distinct collection activities for confirmed low-income customers.[283]

OCA's proposed adjustment should be rejected. First, the Company's collections practices include numerous attempts by mail, phone calls and in-person field visits to provide customers with information to avoid pending termination activity.[284] Many of these activities are done in order to comply with statutory or regulatory requirements, or as a result of direct input from

---

[280] *Id.*
[281] *See* UGI Electric St. No. 2-R, p. 10; UGI Electric St. No. 13-R, pp. 11-12.
[282] OCA St. 2, p. 55.
[283] *Id.*, p. 51.
[284] UGI Electric St. No. 13-R, pp. 11-12.

stakeholders like OCA in working groups and prior proceedings. Second, although the Company does not differentiate between customer types for its collections activities, outside of suspending terminations for nonpayment from December 1 through March 31 for confirmed low-income customers, UGI Electric's practice comports with Chapter 56 of the Commission's regulations.[285] Third, the Company does not resort to termination more frequently with respect to confirmed low-income customers. Indeed, less than 15% of the total notices sent to customers eligible for termination due to nonpayment actually resulted in termination to confirmed low-income customers.[286] This evidence makes clear that the Company's credit and collection processes are both proper and efficient, contrary to the arguments of OCA.

Furthermore, OCA attempts to argue that the Company's position is contrary to the "mandatory" considerations set forth in Section 523 of the Code, 66 Pa. C.S. § 523.[287] However, Section 523 states:

> The commission shall consider, in addition to all other relevant evidence of record, the efficiency, effectiveness and adequacy of service of each utility when determining just and reasonable rates under this title. On the basis of the commission's consideration of such evidence, it shall give effect to this section by making such adjustments to specific components of the utility's claimed cost of service as it may determine to be proper and appropriate.[288]

The emphasized language makes clear that, while the Commission "shall consider" and "shall give effect" to its considerations of the efficiency, effectiveness and adequacy of a utility's service, the Commission has discretion to make any adjustment and is not required to do so. So, contrary to OCA's claim, its proposed adjustment is not mandated by statute. Instead, the Commission would

[285] *Id.*, p. 12.
[286] UGI Electric St. No. 13-R, p. 12.
[287] OCA St. 6, pp. 4, 52-56; *see* OCA St. 6SR, pp. 11-13.
[288] 66 Pa. C.S. § 523(a) (emphasis added). Section 523(b) further lists the specific considerations to be made by the Commission to carry out subsection (a). *Id.* § 523(b). OCA's argument is limited to the consideration set forth in (b)(7), i.e., "[a]ny other relevant and material evidence of efficiency, effectiveness and adequacy of service." *Id.*

need to determine whether the proposed adjustment is proper and appropriate. As explained previously, the record demonstrates that the proposed adjustment is unwarranted.

Moreover, OCA witness Colton attempted to flip the burden of proof concerning his proposed adjustment by alleging that UGI Electric witness Adamo's argument in opposition was "insufficient to meet the showing that an adjustment is appropriate pursuant to Section 523."[289] Essentially, OCA believes the burden rests on UGI Electric to prove that its credit and collection activities are efficient, effective, and adequate, or else an adjustment must be made to this expense claim. However, Pennsylvania law is clear: a party proposing an adjustment to a ratemaking claim bears the burden of demonstrating the reasonableness of their proposed adjustment.[290] OCA has not met this burden for the reasons described above, and its witness's misinterpretation of Section 523, if adopted, would improperly shift the burden of proof. The ALJs and the Commission should, therefore, reject this interpretation of the statute.

Finally, to the extent that the Commission is inclined to make adjustments to the Company's cost of service under Section 523 of the Public Utility Code, any such adjustment should be done on a holistic basis, giving consideration to all aspects of the Company's operations, including those that would require positive adjustments to the cost of service. For example, UGI Electric is "not seeking a management effectiveness adjustment to its ROE in this case, despite providing evidence regarding the effectiveness of its management in its execution of safety related projects, excellent reliability metrics, strong customer service performance, and the effective management of operating costs, and despite UGI Electric's prior history of being granted a management effectiveness adjustment" in its 2018 Rate Case.[291] In light of this evidence of

---

[289] OCA St. 6SR, p. 13.

[290] *NRG Energy, Inc. v. Pa. PUC*, 233 A.3d 936, 950-51 (Pa. Cmwlth. 2020); *Pa. PUC v. UGI Utils., Inc. – Elec. Div.*, Docket Nos. R-2017-2640058, *et al.*, p. 7 (Order entered Oct. 25, 2018) ("*UGI Electric 2018 Order*").

[291] UGI Electric St. No. 1-R, p. 15.

excellent and efficient management that has benefited the Company's customers, UGI Electric submits that the better course of action for the Commission is to simply decline to adopt OCA's proposed adjustment based upon the balance of the evidence.

For these reasons, OCA has failed to demonstrate that an adjustment to the Company's revenue requirement related to its credit and collections expense is just and reasonable, and OCA's proposed adjustment should be rejected.

E. UNCOLLECTIBLE EXPENSE

UGI Electric's initial filing included a claim for uncollectible expenses of approximately $3.51 million.[292] OCA proposed a $337,396 reduction of the Company's uncollectible expenses to reflect its recommended revenue requirement increase multiplied by the Company's uncollectible account rate of 2.167%.[293] UGI Electric agreed with OCA in principle, such that to the extent the revenue requirement is adjusted, the uncollectible expense should be modified to reflect that adjusted amount.[294] However, the Company disagreed with OCA's specific adjustment amount because UGI Electric opposes underlying expense adjustments advanced by OCA.[295] Therefore, at the Company's proposed revenue increase of $16.05 million, the uncollectible expenses included in the revenue requirement should be $3.485 million, as shown on Schedule D-1 of UGI Electric Exhibit A – Fully Projected (REBUTTAL).

F. VEGETATION MANAGEMENT EXPENSE

In this proceeding, UGI Electric included a claim for vegetation management expense of $4,141,000 for the FPFTY, which consisted of salaries and benefits, transportation, and contractor costs.[296] These costs are a part of the Company's efforts to continue supporting reliable service,

[292] UGI Electric Exhibit A – Fully Projected, Schedule D-1.
[293] *See* OCA St. 2, pp. 38-39; OCA Schedule DM-12.
[294] UGI Electric St. No. 2-R, p. 11.
[295] *Id.*
[296] *See* OCA St. 2, p. 33.

which include robust vegetation management practices on an accelerated, shorter cycle.[297] Moreover, UGI Electric explained that "[w]ell-defined and executed vegetation management programs help facilitate public safety (e.g., avoiding prolonged outages and surges) while also hardening reliability and resiliency."[298] Vegetation management is a critical tool in reducing outages on UGI Electric's system, and the Company has shown that it consistently spends its full vegetation management budget.[299] Reducing the vegetation management expense would directly reduce the funds available to do this important reliability work.

However, I&E and OCA proposed downward adjustments to the Company's vegetation management expense claim based on the use of backward-looking historic averages. Specifically, I&E proposed to disallow $469,000 of the Company's claim to recover costs associated with vegetation management contractors by using a three-year average of those costs over the period 2023-2025 (excluding storms),[300] while OCA proposed to disallow $530,000 of the Company's claim based on a five-year average of the Company's vegetation management expenses for the period 2021-2025.[301] The other parties' reasoning for these adjustments is that the Company's actual vegetation management expenses vary from year to year.[302]

Normalization of operating expenses should not be the default, simply because the actual expenses incurred may vary from year to year. There are times when the projected expenses for the FPFTY should be utilized, particularly when certain increases in the costs are known and measurable and when a normalization of the expenses does not reasonably reflect the Company's level of expenses due to specific plans, such as accelerating the pace of work. That is the case

---

[297] *See* UGI Electric St. No. 3, p. 4.
[298] *Id.*, p. 11.
[299] UGI Electric St. No. 3-RJ, p. 4.
[300] I&E St. No. 1, pp. 26-28.
[301] OCA St. 2, pp. 33-34.
[302] *See* I&E St. No. 1, pp. 26-28; OCA St. 2, pp. 33-34.

here. The basic math of a backward-looking normalization adjustment is that it gives greater weight to the budget for a slower pace of work and work done at a lower cost before the known cost increases, eroding the Company's ability to increase the scope of work that the Commission itself has recognized as critical to reliability.[303]

First, vegetation management is a labor-intensive activity, and UGI Electric entered into a new contract with its external on-property line clearance contractor for the period January 1, 2025, through December 31, 2028.[304] The average external labor increase under this new contract is **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** per year,[305] as evidenced by the contract produced as HIGHLY CONFIDENTIAL UGI Electric Exhibit VAD-1RJ. These increased external labor costs would only be captured in a single year of I&E's three-year normalization period and a single year of OCA's five-year normalization period. Moreover, those increased external labor costs will be incurred under the new contract through December 31, 2028, i.e., well beyond the end of the FPFTY on September 30, 2027. Yet, neither I&E nor OCA attempted to reflect this increase in the contractor costs in their vegetation management expense adjustments.[306]

Second, UGI Electric has seen a consistent trend of: (1) increases in this expense category; and (2) exhausting its annual vegetation management budget. Table 1R from UGI Electric witness

303 UGI Electric St. No. 3-RJ, p. 5.
304 UGI Electric St. No. 3-R, pp. 4, 6.
305 *Id.*
306 Also, I&E witness Bedasa testified in his surrebuttal testimony that the lack of the "contract in question" was the reason why UGI Electric's claim was "not substantiated." I&E St. No. 1-SR, p. 21. However, UGI Electric produced that contract as part of its rejoinder testimony as HIGHLY CONFIDENTIAL UGI Electric Exhibit VAD-1RJ, so the "supporting documentation" Mr. Bedasa said was necessary to "endorse Mr. DeGiusto's argument for the Company's increased claim for vegetation management" is in the evidentiary record. *Id.*

DeGiusto's rebuttal testimony, reproduced below,[307] shows the Company's actual contractor costs for vegetation management on the distribution system incurred since 2018[308]:

Table 1R: Annual Distribution Vegetation Management Expense, 2018 - 2027
($ in 1000)

2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Actual	2026 Budget	2027 Budget
1763	1865	1635	2801	2884	3298	3708	3401	3745	3938

As can be seen above, from 2021 to 2025, UGI Electric's contractor costs for vegetation management on the distribution system rose by $600,000, a 21% increase.[309] Likewise, Table 1-RJ in Mr. DeGiusto's rejoinder testimony demonstrated that the Company's total spending on vegetation management (both on distribution and transmission) has increased on a persistent and steady basis over time:

Table 1-RJ: Total UGI Electric Vegetation Management Spend By FERC Account[2]

Fiscal Year	Distribution (Account 5930)	Transmission (Account 5710)	Total
FY22 Actuals	$3.2 million	$0.8 million	$4.0 million
FY23 Actuals	$3.7 million	$0.8 million	$4.5 million
FY24 Actuals	$4.0 million	$0.4 million	$4.4 million
FY25 Actuals	$3.7 million	$1.0 million	$4.7 million
FY26 Year to Date Forecast	$3.9 million	$0.5 million	$4.4 million
FY27 (FPFTY Budget)	$4.1 million	$0.6 million	$4.7 million

[310]

Furthermore, in the four years of completed operations reflected in the table above, the Company overspent on its total vegetation management budget in the past three years by between 1.26% and

[307] UGI Electric St. No. 3-R, p. 3.
[308] *See* UGI Electric St. No. 3-RJ, p. 4 n.2 (explaining that the values in Table 1R "reflected only contractor costs," which is why they are different from the distribution expense values in Table 1-RJ).
[309] UGI Electric St. No. 3-R, p. 3.
[310] *See* UGI Electric St. No. 3-RJ, p. 4.

3.98% and has not underspent on that combined budget since Fiscal Year 2022, and even then, the Company only underspent by $58,000 or 1.45%.[311]

Third, both parties' adjustments would produce vegetation management budgets that cannot meet the existing scope of the vegetation management program, not to mention the expanded program that will continue progressing UGI Electric toward industry best practices.[312] As UGI Electric witness DeGiusto observed, "I&E's proposal would take UGI Electric's vegetation management budget for its distribution system to pre-2023 levels, despite increased crews, increasing wage costs, and inflationary pressures."[313] In fact, "even OCA's surrebuttal position would reduce the Company's vegetation management budget to a level lower than the actual spend in the four most recent years."[314]

These budgetary reductions would have adverse impacts on UGI Electric's service by "reduc[ing] the amount of vegetation management work that gets completed each year and compromis[ing] the Company's ability to provide safe and reliable service to its customers."[315] "Downed vegetation is the top cause of outages on UGI Electric's system," and "UGI Electric has and will continue to spend its full vegetation management budget because this spend plays such an integral role in reliability.[316] Furthermore, the Company's claim would enable it to hire one additional crew to complete the vegetation management work, which is estimated to reduce UGI Electric's current trim cycle from 5.8 years to 5.6 years.[317] The Commission should be encouraging investment in this area, especially when UGI Electric has a reliable history of exhausting its budget for vegetation management.

---

[311] *Id.*
[312] *Id.*, p. 3.
[313] *Id.*, p. 5.
[314] *Id.*, p. 6.
[315] UGI Electric St. No. 3, p. 5.
[316] *Id.*, pp. 5-6.
[317] *Id.*, p. 7.

In sum, the use of a three-year or a five-year historic average will simply result in the Company's inability to recover its reasonable and prudent vegetation management costs in rates.[318] Thus, the record fully establishes that UGI Electric's vegetation management expense claim is reasonable and prudent for reliably serving customers and is supported by substantial evidence.

G. PAYROLL AND PAYROLL-RELATED EXPENSES

The Company's initial claims for payroll expenses of $7,158,000[319] and payroll-related expenses of $1,296,000 (consisting of employee benefits of $724,000 and payroll taxes of $572,000)[320] reflected the Company's known or anticipated changes to its union and non-union employees at the end of the FPFTY and was developed using an assumed level of headcount based upon the Company's development and the use of vacancy rates of 1.1% and 4.7% for electric and shared employees, respectively.[321] The Company subsequently updated its claims to reflect a vacancy rate of 6.15% for shared employees, which reduced the payroll expense claim by $44,000, the employee benefits claim by $11,000, and the payroll taxes claim by $4,000.[322] However, UGI Electric maintained that the 1.1% vacancy rate should be used for electric employees.[323]

I&E initially proposed adjustments to the Company's payroll expenses and payroll-related expenses (i.e., employee benefits and payroll taxes), based on the use of three-year historical average vacancy rates of 3.99% for electric employees and 5.53% for shared employees.[324] At the surrebuttal stage, however, I&E accepted the Company's vacancy rates of 1.1% for electric

---

[318] *Id.*
[319] *See* UGI Electric Exhibit A – Fully Projected, Schedule D-7.
[320] *See* UGI Electric Exhibit A – Fully Projected, Schedule D-31; I&E St. No. 1, pp. 19, 25, 35.
[321] *See* I&E St. No. 1, pp. 19-21.
[322] UGI Electric St. No. 2-R, pp. 2-3.
[323] *See* UGI Electric St. No. 4-R, pp. 3-4.
[324] *See* I&E St. No. 1, pp. 19-26, 35-37.

employees and 6.15% for shared employees.[325] Thus, the Company's final claims for payroll and payroll-related expenses are now undisputed and should be adopted without further modification.

H. INCENTIVE COMPENSATION EXPENSE

In addition to the fixed compensation that UGI Electric offers to its employees, the Company offers incentive (i.e., performance-related) compensation to attract and retain qualified and dedicated employees, managers and executives.[326] This type of compensation is standard in the utility industry, and UGI Electric offers it to ensure that: (1) the Company attracts and retains qualified individuals who possess necessary expertise in this nuanced, highly regulated field; (2) the Company's compensation is competitive with that of other public utilities; and (3) a portion of covered individuals' compensation is tied to the Company's performance in providing safe and reliable service at affordable rates to its customers.[327]

Further, Commission precedent supported the Company's request to recover the costs of the incentive compensation in base rates. Specific to UGI Electric, the Commission previously held in the Company's 2018 Rate Case proceeding that incentive compensation programs must be evaluated "as a whole," when determining whether the plan includes goals which benefit customers.[328] No party in this proceeding argued that the amounts claimed by UGI Electric are excessive or unreasonable due to imprudent management or decision-making by the Company.[329]

Yet, I&E and OCA proposed specific adjustments to the capital costs and expenses associated with the Company's incentive compensation, arguing those portions should be disallowed because they are tied to the "financial performance" of the Company.[330] However,

[325] *See* I&E St. No. 1-SR, pp. 15-18.
[326] UGI Electric St. No. 4-R, p. 5.
[327] *Id.*, pp. 5-6.
[328] *UGI Electric 2018 Order*, pp. 73-74; *see also Pa. PUC v. PPL Elec. Utils. Corp.*, Docket Nos. R-2012-2290597, *et al.*, p. 26 (Order entered Dec. 28, 2012) ("*PPL Electric 2012 Order*").
[329] UGI Electric St. No. 4-R, p. 6.
[330] I&E St. No. 1, pp. 29-34; *see* OCA St. 2, pp. 21-30, 47-48.

these proposals ignore that Commission precedent supports recovery of incentive compensation related to a utility's financial performance, because the financial performance of the utility benefits customers by ensuring a utility controls costs, improves operational efficiency, and encourages the retention of experienced employees.[331] And while the Commission may have disallowed certain incentive compensation expenses in the *Columbia Gas 2025 Order*[332] and the *PAWC 2026 Order*,[333] this conclusion was based upon a finding that the utility did not present sufficient evidence to support its claim that the incurrence of these expenses benefits customers.

Notwithstanding that the Company's incentive compensation claim was reasonable and prudent and that the benefits to customers were substantiated by record evidence, to limit the number of disputed issues in this proceeding, UGI Electric voluntarily reduced its claim for incentive compensation to "eliminate the Company's claim for the equity compensation plans and the portions of other incentive plans that are based on financial metrics."[334] These voluntary adjustments by incentive plan are set forth in CONFIDENTIAL UGI Electric Exhibit VKR-2R. Collectively, these adjustments reduced the Company's claim for incentive compensation expense by **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]** and its rate base claim by **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]**.[335] Additionally, as part of its rebuttal case, UGI Electric updated its claim for Lineman and Substation Bonuses, which were understated by **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]**.[336] The

[331] *Pa. PUC v. Pennsylvania-American Water Co.*, Docket Nos. R-2023-3043189, *et al.*, pp. 88-89 (Order entered July 22, 2024) ("*PAWC 2024 Order*"); *Pa. PUC v. Aqua Pa., Inc.*, Docket Nos. R-2021-3027385, *et al.*, pp. 100-01 (Order entered May 16, 2022) ("*Aqua 2022 Order*").
[332] *Columbia Gas 2025 Order*, p. 123.
[333] *PAWC 2026 Order*, pp. 113-16.
[334] UGI Electric St. No. 4-R, p. 6.
[335] UGI Electric St. No. 4-R, p. 6; CONFIDENTIAL UGI Electric Exhibit VKR-2R, p. 1.
[336] UGI Electric St. No. 2-R, p. 3; CONFIDENTIAL UGI Electric Exhibit TAH-3R, p. 1.

inclusion of this adjustment increased the revenue requirement by **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]**.[337]

Although I&E accepted the Company's adjustments to its incentive compensation claims,[338] OCA continued to recommend disallowance of **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]** tied to the Growth Metric portion of the Company's UGIU Management Incentive Plan.[339] OCA contended that the Growth Metric does not benefit ratepayers because "UGI Electric is a small utility and there is limited or minimal customer growth per year, which does not appear to provide sufficient growth to offset and spread the fixed costs over a larger customer base."[340]

OCA's proposed disallowance should be rejected. As UGI Electric witness Ressler testified, "[o]rganic customer growth allows the Company to spread fixed costs across a larger customer base, reducing the per-customer cost of service," and "[i]f such growth is sufficient, it can also extend the period between base rate cases, further moderating costs for existing ratepayers."[341] This is especially the case for a small utility like UGI Electric, whose addition of a single large customer can make a meaningful difference in the allocation of costs.[342]

In addition, OCA's position essentially discriminates against small utilities, as compared to large utilities, and only further hinders the ability for small utilities to establish policies that will increase growth in a way that benefits existing customers.[343] OCA also fails to recognize that the Growth Metric under the UGIU Management Incentive Plan applies to both UGI Gas and UGI

---

337 UGI Electric St. No. 2-R, p. 3.
338 I&E St. No. 1-SR, pp. 23-24.
339 OCA St. 2SR, p. 9; OCA Exhibit SR-DM-9.
340 OCA St. 2SR, p. 9.
341 UGI Electric St. No. 4-R, p. 9.
342 *Id.*
343 UGI Electric St. No. 4-RJ, p. 2.

Electric, meaning that "growth in either area would result in a beneficial spread of fixed costs."[344] Further, the Growth Metric benefits customers by encouraging employees to optimize the connection process for individuals interested in becoming customers in a manner that supports good customer service experiences.[345] Thus, "[t]here is a clear and strong nexus between the Growth Metric and customer benefits."[346]

For these reasons, UGI Electric's updated incentive compensation claims should be adopted, and OCA's proposed disallowance connected to the Growth Metric under the UGIU Management Incentive Plan should be rejected.

I. INJURIES & DAMAGES

UGI Electric's revenue requirement includes a claim to recover Injuries and Damages ("I&D") expenses, inclusive of both claims costs and non-claims costs.[347] The non-claims costs consist of: (1) insurance premium costs; (2) payroll and vehicle expenses for the claims department; (3) professional fees, and (4) other miscellaneous costs.[348] OCA originally recommended disallowing $391,667 of the I&D expenses, based on a three-year average of those expenses for the 2023-2025 period.[349] OCA reasoned that "[t]hese costs should be normalized to account for fluctuations of claims incurred related to damages and litigation and the changes in various liability insurance coverages.[350]

---

[344] *Id.* UGI Electric also observes that "[t]he portion of the UGIU Management Incentive Plan associated with the Growth Metric was not opposed by OCA in their direct testimony in the recent UGI Gas rate case at Docket No. R-2025-3059523." *Id.*

[345] *Id.*, pp. 2-3.

[346] *Id.*, p. 3.

[347] UGI Electric St. No. 4-R, pp. 12-13. Further details of the expenses that make up the claims costs and non-claims costs can be found in UGI Electric Exhibit VKR-4R. UGI Electric notes that the "I&D Non-Claims Expense" and "I&D Claims Expense" headings should be reversed in the exhibit, as the categories under those headings specifically relate to the claims costs and non-claims costs, respectively. *See* UGI Electric Exhibit VKR-4R.

[348] *Id.*, p. 13.

[349] OCA St. 2, pp. 44-45.

[350] *Id.*, p. 45.

In rebuttal, UGI Electric partially accepted OCA's recommendation and reduced its claim by $41,000 to normalize (based on a three-year normalization) the portion of the I&D costs directly related to claims payments.[351] The Company also pointed out errors in OCA's recommended I&D adjustment, which resulted in OCA calculating an average for the 2023-2025 period that was lower than it should have been.[352] OCA subsequently recalculated the normalization adjustment to correct those errors but maintained that the entirety of the I&D expenses should be adjusted to reflect a three-year normalization.[353] As a result, OCA argued that $209,000 should still be disallowed from the I&D expense claim.[354]

OCA's arguments should be rejected because it is inappropriate to normalize the non-claims costs component of the I&D expenses. UGI Electric witness Ressler testified that "[f]or each of these non-claims costs, the Company's internal subject matter experts recommend an amount to be included in the budget."[355] That budget, upon which the Company's claim is based,

---

[351] UGI Electric St. No. 4-R, pp. 12-13.

[352] *Id.*, pp. 14-15. Specifically, UGI Electric witness Ressler explained the errors with OCA witness Mugrace's calculation of the adjustment as follows:

> OCA witness Mugrace calculated his normalization adjustment based on information provided in response to data request OCA-7-36. The relevant page of this data request response is included as page 2 of UGI Electric Exhibit VKR-4R. 4 In calculating his normalization adjustment, OCA witness Mugrace critically ignored the lack of comparability of the I&D costs over the three-year normalization period (2023 – 2025) that he chose. Certain insurance premium costs, principally $629,000 of excess liability insurance premiums, were excluded from the costs assigned to Account 925 (Injuries and Damages) in 2023. These costs were instead included in Account 923 (Outside Services) in 2023 but were included and assigned to Account 925 (Injuries and Damages) in 2024 and 2025 and within the Company's FPFTY claim (2027). This lack of comparability was specifically discussed in footnote (a) within the data request response prepared by the Company and referenced within OCA witness Mugrace's testimony (OCA St. 2, p. 44, line 24).
>
> Because he averaged the costs from 2023 with the costs from 2024 and 2025, OCA witness Mugrace calculated an average that was lower than if he had included all comparable costs in his I&D normalization adjustment calculation.

Id.

[353] OCA St. 2SR, pp. 16-17.

[354] *Id.*; OCA Exhibit SR-DM-15.

[355] UGI Electric St. No. 4-R, p. 13.

is the expected operational costs for the test year, not on a general estimate or trend.[356] Also, "as shown at UGI Electric Exhibit VKR-4R, the Company saw an overall upward trend in these non-claims costs from 2023 - 2025."[357] UGI Electric also explained that the decrease in the non-claims costs from 2023 to 2024 was "due to a reduction in the rate of allocation to UGI Electric for costs incurred at the UGI Utilities, Inc. level, these non-claims costs increased significantly, approximately 34% more, from 2024 to 2025."[358] In fact, "[t]he Company's claim (based on its Fiscal Year 2027 FPFTY budget) is only slightly higher, approximately 2.5% more, than its actual 2025 costs."[359] Therefore, if anything, UGI Electric is likely to under-recover its costs even at the Company's claim amount.[360] Thus, the ALJs and Commission should adopt the Company's updated claim for its I&D expenses and reject OCA's proposed adjustment.

J. MEMBERSHIP DUES

The Company's revenue requirement includes a claim to recover membership dues of $58,450 associated with various organizations that facilitate how the Company provides safe, reliable, and affordable service to its customers.[361] In its direct testimony, OCA proposed a disallowance of $51,770 based on an exclusion of the following claims and amounts from membership dues: (1) Edison Electric Institute ("EEI") of $39,245; (2) Energy Association of Pennsylvania ("EAP") of $9,185; and (3) PA Chamber of Commerce of $3,340.[362] As alleged support for the adjustment, OCA witness Mugrace claimed that "[t]here is no discernable link between these types of costs and customer service metrics nor do they benefit ratepayers."[363] In

[356] *Id.*
[357] *Id.*, pp. 13-14.
[358] *Id.*, p. 14.
[359] *Id.*
[360] *Id.*
[361] *See* OCA St. 2, p. 45.
[362] OCA St. 2, pp. 45-46.
[363] *Id.*, p. 46.

rebuttal, UGI Electric updated its claim by reducing the portion of the claim associated with Company memberships by $2,000, as the Company identified a membership in discovery that should not have been included.[364] The Company also accepted the adjustment related to the PA Chamber of Commerce membership to limit the number of issues in dispute, despite the Company's belief that participation in the PA Chamber of Commerce provides a benefit to customers and the communities served by UGI Electric.[365] However, the Company maintained that the disallowance of the EEI and EAP membership dues should be rejected because both organizations provide benefits to UGI Electric's ratepayers.[366] Yet, in its surrebuttal testimony, OCA witness Mugrace stated how he "continue[s] to believe that the majority of these costs are for lobbying costs" and that "[a]bsent a detailed breakdown of each of these costs," he continues to recommend disallowance of the EEI and EAP membership dues.[367]

OCA's proposed disallowance should be rejected. For starters, as part of its rejoinder testimony, UGI Electric provided a detailed breakdown of the EEI and EAP membership dues and even copies of the most recent EAP and EEI invoices (see UGI Electric Exhibit VKR-1RJ), which demonstrate that the Company excluded all the lobbying costs from the membership dues claim.[368] Also, nothing credible supports OCA's claim that the Company's membership in these organizations fails to provide benefits directly to ratepayers. As UGI Electric witness Ressler explained:

> 1) EEI – Edison Electric Institute is an electric industry group that supports its utility members that focus on providing reliable, affordable and clean energy. It develops industry best practices and technical standards that utilities rely on. The collective participation in these efforts allows electric utilities to be prepared and informed

[364] UGI Electric St. No. 2-R, p. 3.
[365] UGI Electric St. No. 4-R, p. 16.
[366] *Id.*
[367] OCA St. 2SR, pp. 17-18.
[368] UGI Electric St. No. 4-RJ, pp. 3-4.

> so that they can maintain safe and reliable service for their customers. Studies produced by EEI on the electric distribution industry are helpful and informative for everyone in the industry – local distribution companies, ratepayers and advocates alike. In fact, OCA witness Roger Colton relies on materials produced by EEI in his direct testimony in this rate case (OCA St. 6, pp 8-9).
>
> 2) EAP – The Energy Association of Pennsylvania is an energy industry group that focuses on bringing Pennsylvania gas and electric utilities together to share best practices, collaborate on customer affordability and other customer-focused programs, and educate on and work through operational challenges. Pennsylvania consumers benefit from the collaborative environment and shared knowledge base created through EAP.[369]

Furthermore, OCA's adjustment runs contrary to Commission precedent. In the *Columbia Gas 2025 Order*, the Commission explicitly rejected OCA's proposed disallowance of Columbia Gas's EAP membership dues.[370] As such, UGI Electric's EAP membership dues should be recoverable here.[371] Moreover, given that EEI is an industry-specific energy association comparable to EAP and that OCA itself has relied on EEI materials in this proceeding, the EEI membership dues should be recovered in rates as well.[372]

For these reasons, the Company's updated membership dues expense claim of $55,110 is fully supported by the record.

VII. <u>TAXES</u>

A. INCOME TAXES

The Company's claim to recover federal and state income taxes is set forth in UGI Electric Exhibit A – Fully Projected (REBUTTAL), Schedule D-33 and was fully supported by UGI Electric witnesses Espigh and Kim.[373] The Company's income tax expense was calculated using

[369] UGI Electric St. No. 4-R, pp. 16-17.
[370] *Id.*, p. 17 (citing and discussing *Columbia Gas 2025 Order*, pp. 156-57).
[371] *Id.*
[372] *Id.*, pp. 16-17.
[373] UGI Electric St. No. 9, pp. 4-6; UGI Electric St. No. 9-R, p. 2.

the procedures normally followed by the Commission, including the use of debt interest synchronization (discussed below), the normalization method for accelerated depreciation used in the calculation of federal income taxes, and the flow-through of accelerated depreciation benefits for state income tax purposes.[374] No party challenged the Company's method for calculating federal and state income taxes during the FPFTY and, therefore, the record supports that the authorized federal and state income tax amounts should be calculated as proposed by the Company and reflected in UGI Electric Exhibit A – Fully Projected (REBUTTAL), Schedule D-33 and Table I in **Appendix A** to this Brief.

B. TAXES OTHER THAN INCOME TAXES

The Company's FPFTY taxes other than income taxes ("TOTI") are approximately $9.84 million.[375] OCA witness Mugrace recommended a downward adjustment of $1,054,100 to the Company's TOTI to incorporate his underlying adjustments.[376] As noted in UGI Electric's rebuttal testimony, the Company decreased payroll taxes by $4,000 and increased the forfeited discount revenue by the percentage of the rate increase, which increases gross receipts tax by $4,000.[377] However, the Commission should decline to make any further adjustments to TOTI as recommended by OCA witness Mugrace because they are derived from the remaining OCA adjustments that should be rejected for the reasons set forth in Section VI, *supra*.[378]

[374] UGI Electric St. No. 9, p. 4.

[375] UGI Electric Exhibit A – Fully Projected (REBUTTAL), Schedule D-31.

[376] *See* OCA St. 2, p. 51.

[377] UGI Electric St. No. 2-R, pp. 13-14.

[378] *Id.*, p. 14. UGI Electric also notes that while I&E made a recommended adjustment to TOTI in its direct testimony based on its adjustment to vacancy rates, UGI Electric's subsequent adjustment made I&E's TOTI adjustment moot. Therefore, no TOTI issue exists as to I&E.

C. PA LOCAL USE TAX

The Company explained in its rebuttal testimony that its claim for Pennsylvania Local Use Tax was overstated by $34,000.[379] This adjustment was reflected in Line 3, Schedule D-31 of UGI Electric Exhibit A – Fully Projected (REBUTTAL), Schedule D-31 and reduces the overall revenue requirement by $36,000.[380] The same adjustment is incorporated in Table I in **Appendix A** to this Brief.

D. INTEREST SYNCHRONIZATION

The Company's tax expense claims reflect amounts related to the synchronization of debt interest.[381] Debt interest expense is synchronized using the rate base claim from Schedule C-1, with the cost of debt and the debt component of UGI Electric's capital structure recommended in the rebuttal testimony of Dylan A. D'Ascendis (UGI Electric Statement No. 8-R) and shown on Schedule B-7 of UGI Electric Exhibit A – Fully Projected (REBUTTAL).[382] The only adjustments proposed regarding debt interest expense synchronization relate to OCA's proposed use of a hypothetical capital structure and OCA's proposed rate base adjustments connected to certain depreciation adjustments.[383] As OCA's proposals regarding capital structure and depreciation should be rejected,[384] so too should their proposed adjustments to state and federal income taxes related to the synchronization of debt interest expense.[385]

[379] *Id.*, p. 3.
[380] *Id.*, p. 3.
[381] *See* UGI Electric St. No. 2-R, pp. 14-15.
[382] Reference is made to the rebuttal testimony of Mr. D'Ascendis because the Company's rebuttal testimony reflected an update to the average cost of long-term debt, which has a corresponding impact on debt interest synchronization. *See id.*, pp. 2, 14-15.
[383] *See* OCA St. 2SR, pp. 51-52; OCA Schedule DM-18. Notably, I&E did not make an interest synchronization adjustment to its tax expenses, despite proposing a hypothetical capital structure.
[384] *See* Section VIII, *infra*.
[385] *See* UGI Electric St. No. 2-R, pp. 14-15.

VIII. RATE OF RETURN

A. SUMMARY

1. The Commission Should Adhere to the Constitutional Standards Applicable to the Rate of Return

A public utility, whose facilities and assets have been dedicated to the service of the public, is entitled to an opportunity to earn a fair rate of return on its investment. The standards to be used by the Commission in determining what return rate is fair are well-established, having been set forth by the United States Supreme Court in *Bluefield Waterworks and Imp. Co. v. P.S.C. of West Virginia* ("*Bluefield*")[386] over 100 years ago: rates which are not sufficient to yield a reasonable return on the value of the property at the time it is being used to render service are unjust, unreasonable and confiscatory, and their enforcement deprives the public utility of its property in violation of the Fourteenth Amendment of the U.S. Constitution.

The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties.[387] These principles have been adopted and applied by the appellate courts of Pennsylvania in numerous cases.[388]

The return allowed to investors must be commensurate with the risk assumed, as the Supreme Court has stated in three landmark opinions. *Bluefield* requires that the rate of return reflect:

> . . . a return on the value of the [utility's] property which it employs for the convenience of the public equal to that generally being made

---

[386] 262 U.S. 679, 690 (1923).

[387] *Id.* at 693.

[388] *See, e.g., Riverton Consolidated Water Co. v. Pa. PUC*, 186 Pa. Super. 1, 140 A.2d 114 (1958); *City of Pittsburgh v. Pa. PUC*, 182 Pa. Super. 376, 126 A.2d 777 (1956); *Lower Paxton Twp. v. Pa. PUC*, 317 A.2d 917 (Pa. Cmwlth. 1974).

> at the same time on investments in other business undertakings which are attended by corresponding risks and uncertainties. . . .[389]

Twenty-one years after *Bluefield*, the Supreme Court reiterated that standard in *Federal Power Commission v. Hope Natural Gas Co.* ("*Hope*")[390] as follows:

> From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock. By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.

Later, in reaffirming *Hope*, the Supreme Court, in *Duquesne Light Co. v. Barasch* ("*Barasch*")[391] observed that "[o]ne of the elements always relevant to setting the rate under *Hope* is the return investors expect given the risk of the enterprise."

The determination of a fair rate of return thus requires the review of many factors, including: (1) the amount necessary to assure confidence in the financial integrity of the company and maintain its credit standing, and (2) the amount of the investment, the size and nature of the utility, and its risks, including regulatory lag and wasting assets.[392] Moreover, the Commission's findings must be based upon substantial and competent evidence on the record before it, not upon speculation or hypothesis.[393]

Critically, the Commission has repeatedly, and recently reaffirmed this precedent and the legal principles that must be applied when determining a public utility's authorized rate of

---

[389] *Bluefield* at 692.

[390] 320 U.S. 591, 603 (1944).

[391] 488 U.S. 299, 314 (1989).

[392] *Pa. PUC v. Pa. Gas & Water Co. - Water Div.*, 341 A.2d 239, 251 (Pa. Cmwlth. 1975) (citations omitted); *see also Lower Paxton v. Pa. PUC*, 317 A.2d 917 (Pa. Cmwlth. 1974).

[393] *Ohio Bell Tel. Co. v. Pub. Util. Comm'n of Ohio*, 301 U.S. 292 (1937); *U.S. Steel Corp. v. Pa. PUC*, 390 A.2d 849 (Pa. Cmwlth. 1978); *Octoraro Water Co. v. Pa. PUC*, 391 A.2d 1129 (Pa. Cmwlth. 1978).

return.[394] Moreover, the Commission adhered to this precedent when adjudicating base rate proceedings during the height of the COVID-19 pandemic.[395] Departure from the Commission's precedent and the constitutional requirements applicable to the setting of a fair rate of return is neither appropriate nor warranted under the factual circumstances presented in this case, and such a departure would result in unconstitutional, confiscatory ratemaking.

2. UGI Electric's Proposed Rate of Return Is Market-Based, Reasonable, and Consistent with Long-Standing Precedent

In determining the overall rate of return, the Commission uses the weighted average cost of capital method.[396] This method determines the percentages of long-term debt, short-term debt and common equity in the Company's capital structure.[397] The method then determines the cost rate of capital for each component and weighs it by multiplying the percentages of each class of capital by the applicable cost rate.[398] UGI Electric's proposed rate of return is as follows:

Type of Capital	Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	45.75%	5.22%	2.39%
Common Equity	54.25%	10.85%	5.89%
Total			8.28%[399]

UGI Electric arrived at its proposed rate of return utilizing (1) market-based analyses to determine its proposed capital structure is typical of the capital structures of comparable entities in a proxy group, (2) multiple market-based analyses that considered the market-based common equity cost rates of companies included in a proxy group, and (3) the Company's actual long-term

[394] *See, e.g.*, *Columbia Gas 2025 Order*, pp. 13-14, 31-32; *PAWC 2024 Order*, pp. 15-16; *Pa. PUC v. Columbia Water Co.*, Docket Nos. R-2023-3040258, *et al.*, pp. 8-9 (Order entered Jan. 18, 2024) ("*Columbia Water 2024 Order*"); *PAWC 2026 Order*, pp. 17-18, 35-46.

[395] *Pa. PUC v. Columbia Gas of Pa., Inc.*, Docket Nos. R-2020-3018835, pp. 9-10, 49 (Order entered Feb. 19, 2021) ("*Columbia Gas 2021 Order*") (discussing legal and constitutional standard applicable to the rate of return).

[396] *See PAWC 2026 Order*, p. 213.

[397] *Id.*, pp. 213-14.

[398] *Id.*, p. 214.

[399] UGI Electric Rebuttal Exhibit B, Schedule DWD-1R, p. 1.

debt costs as updated during this proceeding. No party has challenged the Company's cost rate for its long-term debt. Thus, the issues of dispute involve UGI Electric's capital structure and cost of common equity or "ROE."

B. PROXY GROUP

Determining an appropriate cost of capital is based upon the economic principle of "opportunity costs" because an investment in one asset represents a foregone opportunity to invest in an alternative asset.[400] A sensible investment, therefore, requires that its expected return must be at least equal to the return expected on an alternative investment with comparable risk.[401]

The purpose of the proxy group is to establish a set of companies with similar traits (i.e., risks) to the subject utility.[402] The proxy group then allows a regulator to determine the "opportunity cost" associated with an investment in the subject utility by applying the various models used to determine the cost of equity to a set of entities comparable to the subject utility.[403]

The Commission has consistently relied upon the use of a proxy group to analyze and set an appropriate ROE, including in its most recent fully litigated rate cases (i.e., the *Columbia Gas 2025 Order* and *PAWC 2026 Order*).[404] Indeed, all rate of return experts in this proceeding utilized a proxy group to conduct their ROE analyses.[405]

UGI Electric witness D'Ascendis selected two proxy groups that, in his view, are fundamentally risk-comparable to the Company: (1) an Electric Utility Proxy Group; and (2) a Non-Price Regulated Proxy Group, which is comparable in total risk to the Electric Utility Proxy Group.[406] For the Electric Utility Proxy Group, Mr. D'Ascendis applied the following selection

---

[400] UGI Electric St. No. 8, p. 8.
[401] *Id.*
[402] I&E St. No. 2, p. 7.
[403] UGI Electric St. No. 8, p. 8.
[404] *See, e.g., Columbia Gas 2025 Order*, pp. 203-05; *PAWC 2026 Order*, pp. 174-76.
[405] *See* UGI Electric St. No. 8, pp. 11-14; I&E St. No. 2, pp. 7-13; OCA St. 3, pp. 13-14.
[406] UGI Electric St. No. 8, p. 12.

criteria to determine its members: (i) they were included in the Electric Utility Group (East, Central, or West) of *Value Line's Standard Edition* as of January 30, 2026 ("*Value Line*"); (ii) they have 70% or greater of fiscal year 2024 total operating income derived from, and 70% or greater of fiscal year 2024 total assets attributable to, regulated electric operations; (iii) at the time of preparation of his testimony, they had not publicly announced that they were involved in any major merger or acquisition activity (i.e., one publicly-traded utility merging with or acquiring another) or any other major development; (iv) they have not cut or omitted their common dividends during the five years ended 2024 or through the time of preparation of this testimony; (v) they have *Value Line* and Bloomberg Professional Services ("Bloomberg") adjusted Beta coefficients ("beta"); (vi) they have positive *Value Line* five-year dividends per share growth rate projections; and (vii) they have *Value Line*, Zacks, or S&P Capital IQ consensus 5-year earnings per share growth rate projections.[407] Although 13 companies initially met this criteria,[408] this proxy group was later updated to reflect the fact that one of the entities originally included by Mr. D'Ascendis (i.e., Portland General Electric Company) no longer satisfied his proxy group criteria.[409] Thus, the 12 companies used by Mr. D'Ascendis in the Electric Utility Proxy Group are:

[407] *Id.*, p. 13.
[408] *Id.*
[409] UGI Electric St. No. 8-R, p. 4.

Company	Ticker
Alliant Energy Corporation	LNT
Ameren Corporation	AEE
American Electric Power Company, Inc.	AEP
Edison International	EIX
Entergy Corporation	ETR
Evergy, Inc.	EVRG
FirstEnergy Corp.	FE
IDACORP, Inc.	IDA
OGE Energy Corp.	OGE
Pinnacle West Capital Corporation	PNW
The Southern Company	SO
Xcel Energy Inc.	XEL

[410]

OCA witness Garrett adopted UGI Electric's Electric Utility Proxy Group.[411] On the other hand, I&E witness Patel developed a proxy group of seven companies by applying different factors.[412] The difference between I&E's proxy group and UGI Electric's proxy group is that Mr. Patel excluded Edison International (EIX), Evergy, Inc. (EVRG), OGE Energy Corporation (OGE), Pinnacle West Capital Corporation (PNW), Portland General Electric Company (POR), and Southern Company (SO) because they do not operate in a state that has a deregulated electric utility market.[413] However, this difference is not material for purposes of either (1) determining an appropriate capital structure or (2) determining an appropriate ROE. For the reasons explained herein, the Commission should utilize the proxy group developed by the Company and adopted by OCA for purposes of analyzing an appropriate rate of return.

C. CAPITAL STRUCTURE

Consistent with well-established Commission precedent, UGI Electric utilized its actual capital structure as part of its weighted average cost of capital calculation.[414] However, I&E

[410] *Id.*
[411] OCA St. 3, p. 14.
[412] I&E St. No. 2, pp. 11-13.
[413] *Id.*, p. 12.
[414] *See* UGI Electric St. No. 8, p. 3.

witness Patel proposed a hypothetical capital structure of 50% common equity and 50% long-term debt.[415] OCA proposed an even more extreme hypothetical capital structure of 42% common equity and 58% long-term debt, based upon the average debt ratios of the proxy group.[416]

The Commission has repeatedly and recently reaffirmed that a utility's actual capital structure is to be used, absent circumstances where the actual capital structure is atypical for the type of utility service being offered.[417] In determining whether the claimed capital structure is atypical, the Commission has looked to see whether the capital structure used by the utility is outside the range of that employed by the barometer group of companies considered in the rate of return analysis.[418] If a utility's capital structure is within a reasonable range of similar risk barometer group companies, the utility's capital structure should be used and not a hypothetical capital structure.[419]

For example, in *ALLTEL*, the Commission stated as follows:

> The ALJ recommended use of the Company's stand-alone capital structure since it met the following characteristics of an appropriate capital structure: (1) It was within a reasonable range of similar risk barometer group companies. (2) It reflected the Company's actual capital structure and projected near term capital structure. (3) It is consistent with the Company's apparent capital structure goal. (R.D., p. 28).
>
> We concur with the recommendation of the ALJ, particularly for the reason that the Company's actual capital structure falls within a range employed by similar risk barometer group companies,

---

[415] *See* I&E St. No. 2, pp. 16-20. As noted herein, this is the first case Mr. Patel has proposed a 50/50 capital structure for an investor-owned utility. *See* Tr. 400. Mr. Patel's first time ever proposing a hypothetical capital structure for an investor-owned utility was in the recent *PAWC 2026 Order*, where he proposed a hypothetical capital structure for PAWC's water operations of 55.00% common equity, 0.01% preferred stock, and 44.99% long-term debt. *See* Tr. 399-400.

[416] OCA St. 3, pp. 5, 59.

[417] *See, e.g.*, *PAWC 2026 Order*, p. 184; *Columbia Gas 2025 Order*, pp. 210-11; *Pa. PUC v. City of Lancaster - Water*, Docket Nos. R-00984567, *et al.*, 1999 Pa. PUC LEXIS 39, at *17 (Order dated Sept. 22, 1999); *Pa. PUC v. City of Bethlehem*, 84 Pa. P.U.C. 275, 304 (1995); *Carnegie National Gas Co. v. Pa. PUC*, 433 A.2d 938, 940 (Pa. Cmwlth. 1981).

[418] *See, e.g.*, *PAWC 2026 Order*, pp. 184-85; *Columbia Gas 2025 Order*, pp. 212-13.

[419] *See, e.g.*, *Columbia Gas 2025 Order*, pp. 212-13.

> described by Mr. Shiavo as commensurate with capital ratios employed by other independent telephone operating companies.[420]

This analysis was reaffirmed by the Commission in the *PPL Electric 2012 Order*. In that case, PPL Electric proposed to use its actual capital structure, but both I&E and OCA proposed to use a hypothetical capital structure.[421] I&E argued in favor of a hypothetical capital structure based upon a calculated industry average.[422] OCA proposed a hypothetical capital structure that was based on an average of PPL Electric's capital structure for a recent period.[423] OCA further supported its proposal by reference to the average common equity ratio of the barometer group sponsored by the Company.[424] The Commission rejected I&E's and OCA's contentions and adopted the Company's proposed capital structure, concluding:

> Absent a finding by the Commission that a utility's actual capital structure is atypical or too heavily weighted on either the debt or equity side, we would not normally exercise our discretion with regard to implementing a hypothetical capital structure. With regard to these factors, we are persuaded by the arguments of PPL that its actual capital structure is not atypical, is with a range of reasonableness, and, pursuant to precedent, provides no basis to employ a hypothetical capital structure. Also, we are further swayed by PPL's assertion that it requires an equity ratio near the high end of the historic range employed by the barometer group companies to support its expanded infrastructure replacement program and its credit rating.[425]

The Commission has reaffirmed its prior decisions on capital structure in several recent decisions. In the *Columbia Gas 2021 Order,* the Commission rejected an OCA proposal to adopt a hypothetical capital structure of 50% common equity and 50% debt, stating "we find no reason to deviate from the established Commission precedent, . . . or to impose OCA's hypothetical capital

[420] *Pa. PUC v. ALLTEL Pa., Inc.*, Docket Nos. R-942710, *et al.*, 59 Pa. PUC 447, 491, 1985 Pa. PUC LEXIS 53, *106-07 (Order entered May 24, 1985) ("*ALLTEL*").
[421] *PPL Electric 2012 Order*, pp. 63-65.
[422] *Id.*, pp. 65-66.
[423] *Id.*, p. 60.
[424] *Id.*, pp. 63-64.
[425] *Id.*, p. 68 (citations omitted).

structure on the Company."[426] The Commission adopted similar conclusions in the *PECO Gas 2021 Order*, the *Aqua 2022 Order*, the *Columbia Water 2024 Order*, and the *PAWC 2024 Order*.[427] Furthermore, the Commission reaffirmed these principles in the *Columbia Gas 2025 Order*, stating:

> We find it appropriate to reinforce our finding, which we have outlined in several recent base rate proceedings before this Commission, that "the use of an actual capital structure represents the Company's decision, in which it has full discretion, on how to capitalize its rate base. This actual capitalization forms the basis upon which the Company attracts capital.[428]

Here, UGI Electric has proposed a capital structure of 54.25% common equity and 45.75% long-term debt.[429] This is based upon how the Company anticipates financing necessary infrastructure investments during the FPFTY. In support of this capital structure, UGI Electric witness D'Ascendis explained that the Company's proposed capital structure is within the range of capital structures presented by his Electric Utility Proxy Group.[430] In addition, the Company's proposed capital structure satisfies the guidelines established in in <u>The Cost of Capital – A Practitioner's Guide</u> ("CRRA Guide"), as well as other academic literature and the approach taken by the Federal Energy Regulatory Commission ("FERC").[431] Furthermore, Mr. D'Ascendis showed that the Company's actual equity ratio is within the range of authorized equity ratios of other electric utilities and should be deemed reasonable.

---

[426] *Columbia Gas 2021 Order*, p. 118 (adopting the utility's proposed actual capital structure of 54.19% common equity, 42.22% long-term debt, and 3.59% short-term debt).

[427] *See Pa. PUC v. PECO Energy Co. – Gas Div.*, Docket Nos. R-2020-3018929, *et al.*, pp. 144-47 (Order entered June 22, 2021) ("*PECO Gas 2021 Order*"); *Aqua 2022 Order*, pp. 138-41; *Columbia Water 2024 Order*, pp. 83-86; *PAWC 2024 Order*, pp. 157-60.

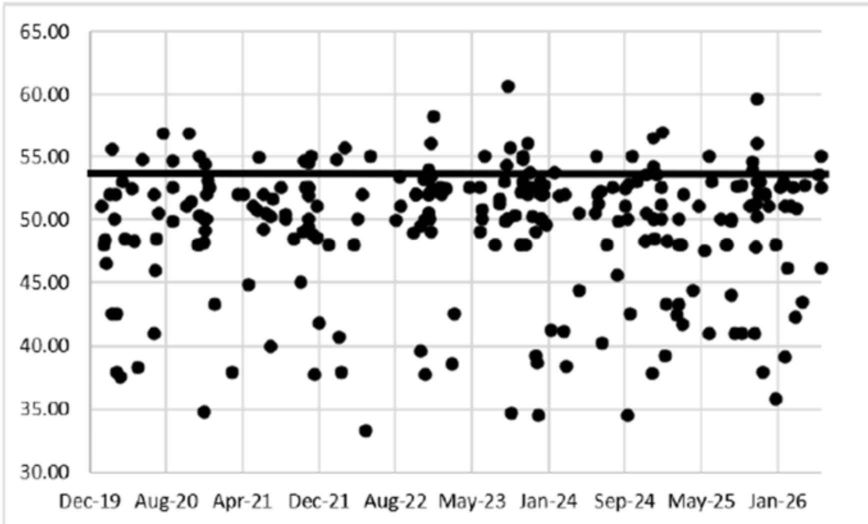
[428] *Columbia Gas 2025 Order*, pp. 210-11.

[429] UGI Electric St. No. 8, pp. 3, 14.

[430] UGI Electric St. No. 8, pp. 15-16.

[431] UGI Electric St. No. 8-R, pp. 6-8.

Chart 1: Authorized Equity Ratios for Electric Utilities – 2020 to Present[14]



[432]

The Company's proposed capital structure is within the range of typical utilities, as represented by the Electric Utility Proxy Group (notably utilized by both UGI Electric and OCA in this proceeding) and its operating subsidiaries, and within the range of equity ratios authorized by utility regulatory commissions.[433]

Also, I&E witness Patel's position here contravenes I&E's position in UGI Gas's 2026 Rate Case and his position in the PAWC 2026 Rate Case and every other rate case in which he testified as an expert on capital structure involving an investor-owned utility. In UGI Gas's 2026 Rate Case, I&E accepted UGI Gas's actual capital structure.[434] Nothing in the record justifies treating UGI Electric differently from UGI Gas on this issue. In the PAWC 2026 Rate Case, Mr. Patel did not propose a 50/50 capital structure; rather, he proposed a hypothetical capital structure with a common equity ratio only 1.31% below PAWC's claimed actual capital structure for its water operations (i.e., 56.31% minus 55.00%).[435] That case marked the first time, across many

[432] *Id.*, p. 8.
[433] *Id.*
[434] UGI Electric St. No. 8-R, p. 6.
[435] Tr. 397-98.

rate cases, that Mr. Patel proposed a hypothetical capital structure for an investor-owned utility.[436] Yet, in this proceeding, Mr. Patel recommends a hypothetical capital structure that would reduce UGI Electric's actual common equity ratio of 54.25% down to 50.00% (i.e., a difference of 4.25% or a change in the capital structure of approximately 7.8%). At no point in his written testimony did Mr. Patel attempt to explain his disparate positions in these two cases.

Furthermore, Mr. Patel was explicit in his written testimony about why he was proposing a hypothetical capital structure: "<u>To be clear, I am recommending a hypothetical capital structure for ratemaking purposes only in order to reduce the impact of an equity heavy/rich capital structure on ratepayers</u>."[437] Not only does this statement flatly conflict with Mr. Patel's later claim at the hearing that his decision to propose a hypothetical capital structure was based on multiple factors,[438] but it contravenes well-established Commission precedent on when to employ a hypothetical capital structure. As noted previously, the Commission has repeatedly held that it will only exercise its discretion to impose a hypothetical capital structure when the utility's actual capital structure is atypical or too heavily weighted to either debt or equity such that is outside the range of reasonableness.[439] Mr. Patel's testimony did not, and could not, align his recommendation to use a hypothetical capital structure for UGI Electric with the Commission's precedent. Mr. Patel's sole reason for recommending a hypothetical capital structure, as stated in his testimony, was to reduce the base rate revenue increase.[440]

---

[436] Tr. 400; *see* I&E St. No. 2, Appendix A, pp. 2-3 (listing the cases in which Mr. Patel has submitted testimony since 2016).

[437] I&E St. No. 2-SR, p. 11 (emphasis added).

[438] Tr. 402-03.

[439] *See, e.g.*, *Columbia Gas 2025 Order*, p. 213.

[440] This position is even more questionable in light of I&E's proposal to reduce the entirety of I&E's calculated base rate revenue increase by 50% due to the purported impact of the Argo Transaction, which, for the reasons explained in Section III, *supra*, should be rejected.

Likewise, OCA witness Garrett's position in this case conflicts with his position in the PAWC 2026 Rate Case. There, Mr. Garrett testified on rate of return issues on behalf of OCA but utilized PAWC's claimed actual capital structures for both its water and wastewater operations when calculating the weighted average cost of capital.[441] As such, Mr. Garrett accepted for use in his calculations an actual common equity ratio of 56.13% for PAWC's water operations, but in this case, he rejects UGI Electric's actual common equity ratio of 54.25% and, instead, proposes to ratchet the equity ratio down to 42.00% (a difference of 12.25% or a change in the capital structure of more than 22.5%).

UGI Electric further notes that I&E's and OCA's proposals to adopt the Company's long-term debt cost rate in the context of its hypothetical capital structure create a mismatch that further demonstrates why their proposed hypothetical capital structures should be rejected. By imputing higher debt ratios than UGI Electric's actual debt ratio, both OCA's and I&E's hypothetical capital structures necessarily assume more in debt than the actual debt outstanding for the Company. Neither OCA nor I&E prices this additional long-term debt in its proposed hypothetical capital structure.[442] Nor do they take into account the potential impacts on the Company's cost of debt that would result from it being forced into financing a greater percentage of its capital investments by issuing debt.[443] As UGI Electric witness D'Ascendis explained, "if the Company had a capital structure with more leverage, the Company's cost of long-term debt would be somewhat higher than the updated debt cost rate of 5.22%."[444] Thus, both OCA's and I&E's proposed hypothetical capital structures are incomplete and do not fully-capture the costs of the Company securing debt to finance its infrastructure investments.

---

[441] Tr. 363-68.
[442] *See generally* OCA St. 3; I&E St. No. 2.
[443] *See* UGI Electric St No. 8-R, p. 19.
[444] *Id.*

In sum, UGI Electric is acting prudently to replace aging plant to maintain reliable service and is maintaining a financial profile that will enable it to obtain the necessary financing to do so.[445] That financial profile is within the range of capital structure ratios of the Electric Utility Proxy Group, and there is nothing credible in the record to establish that UGI Electric's common equity ratio is "atypical" under Commission precedent. Therefore, any claim that the Company's capital structure should be adjusted is unsupported by the facts or the law, and the Company's proposed capital structure should be approved without modification.

D. COST OF LONG-TERM DEBT

The Company's cost of long-term debt of 5.22%, based on its proposed capital structure, is undisputed and should be utilized.[446] UGI Electric explained that this amount reflects both an increase in the interest for the term loan to be issued during the FPFTY, as well as market expectations that have shifted to reflect a sustained elevated rate environment.[447] No party has challenged the Company's long-term debt cost rate, and it should be adopted and utilized for purposes of calculating UGI Electric's authorized rate of return.

E. RETURN ON EQUITY

1. Appropriate, Market-Based Models That Are Applicable to the Determination of a Reasonable ROE

At the outset, it must be emphasized that, regardless of where a utility operates its regulated business, it must still compete for equity in capital markets with all other companies of comparable risk, including non-utilities.[448] Therefore, an appropriate ROE is based upon the market expectations for returns for companies comparable to the utility.[449] Indeed, if an individual

[445] UGI Electric St. No. 1-R, pp. 6-9.
[446] UGI Electric Rebuttal Exhibit B, Schedule DWD-1R, p. 1; UGI Electric St. No. 2-R, p. 2.
[447] UGI Electric St. No. 2-R, p. 2.
[448] UGI Electric St. No. 8, p. 16.
[449] *Id.*

investor is choosing to invest their capital among companies of comparable risk, they will choose a company providing a higher return over a company providing a lower return.[450]

Investors (i.e., the market) use a variety of tools and models to make investment decisions; they do not rely exclusively on one single source of information or one model.[451] Consequently, to determine an appropriate, market-based cost of common equity, it is appropriate and necessary to use multiple market-based models.[452] These models include:

- The Discounted Cash Flow ("DCF") model, which uses market prices to develop a dividend yield component and estimates an investor-required return assuming a constant expected dividend yield and growth rate in perpetuity;[453]
- The Risk Premium Model ("RPM"), which uses bond ratings and expected bond yields that reflect the market's bond/credit risk and provides the ability to reflect investors' views of risk, future market returns, and the relationship between interest rates and the cost of equity;[454]
- The Capital Asset Pricing Model ("CAPM"), which uses similar metrics as the RPM and analyzes risk of a specific security's returns in comparison to the risk of market returns through the use of a "beta";[455] and
- The selection of comparable risk non-price regulated companies, which uses regression analyses of market prices and reflect the market's assessment of total risk.[456]

Each of these models focuses on different aspects of return requirements and provide different insights into investors' views on risks and return.[457] Thus, no single model is more reliable than all others under all market conditions, and it is commonly concluded by intuition, financial theory, and financial practice that multiple market-based methods should be used to estimate a market-based ROE.[458]

---

[450] *Id.*
[451] *Id.*, p. 17.
[452] *Id.*
[453] *Id.*, pp. 17-21.
[454] *Id.*, pp. 17, 21-32.
[455] *Id.*, pp. 17, 32-49.
[456] *Id.*, pp. 17, 50-53.
[457] *Id.*, pp. 17-18.
[458] *Id.*, p. 18.

2. The Company's Proposed Cost of Common Equity Is Market-Based, Reasonable, and Necessary to Provide the Company with a Reasonable Opportunity to Earn a Fair Return on Undisputed Investments in its Infrastructure

The Company has relied upon multiple, market-based models to determine that an appropriate, market-based ROE would fall within the range 10.63% to 12.17%.[459] A summary of the common equity rates determined by the use of these models is set forth below:

Discounted Cash Flow Model (DCF)	10.82%
Risk Premium Model ("RPM")	10.71% - 11.10%
Capital Asset Pricing Model (CAPM)	10.17% - 11.30%
Cost of Equity Models Applied to Comparable Risk, Non-Price Regulated Companies	10.93% - 11.71%
Indicated Range of Common Equity Cost Rates Before Adjustments for Company-Specific Risk	10.17% - 11.71%
Business Risk Adjustment	0.40%
Credit Risk Adjustment	-0.06%
Flotation Cost Adjustment	0.12%
Indicated Range of Common Equity Cost Rates after Adjustment	10.63% - 12.17%
Recommended Cost of Equity	10.85%

[460]

The Company has proposed an ROE of 10.85% in this range, which falls well below the median of the range of reasonable ROEs determined by the application of multiple market-based models.

---

[459] UGI Electric St. No. 8-R, p. 5.
[460] *Id.*

a. The Company's DCF Model Established a 10.82% ROE Applicable to the Utility Proxy Group

Mr. D'Ascendis's DCF analysis is based upon the most widely-used form of the DCF Model[461] (i.e., the single-stage constant growth DCF), represented by the formula:

$K_e = (D_0\ (1+g))/P + g$

where:

K_e = the required return on equity;

D_0 = the dividend per share adjusted to reflect next-period growth;

P = the current stock price; and

G = the growth rate.[462]

The dividend yields that Mr. D'Ascendis used to apply the DCF Model were based on the dividends of the companies in the Electric Utility Proxy Group as of June 12, 2026, divided by the average closing market price for the 60 trading days ending on that date.[463] Because dividends are paid quarterly, not continuously (daily), the yield must be adjusted to reflect the growth in dividends.[464] Under the broadly accepted Gordon Periodic version of the DCF Model, an adjustment is made to reflect *annual* (i.e., one full year's) growth in dividends in order to properly reflect the dividends to be paid in the *next* 12-month period.[465] Because the Electric Utility Proxy Group companies increase their dividends at various times throughout the year, Mr. D'Ascendis made the conservative decision to adjust the dividend yield to reflect *only one-half* the annual dividend growth.[466]

For the DCF growth rate, Mr. D'Ascendis used analysts' five-year forecasts of earnings per share ("EPS") growth rate projections from three different sources.[467] As Mr. D'Ascendis

---

[461] The theoretical and mathematical basis for the DCF is fully explained by Mr. D'Ascendis. UGI Electric St. No. 8, pp. 18-19.

[462] *Id.*, p. 19.

[463] *Id.*; UGI Electric Rebuttal Exhibit B, Schedule DWD-1R, p. 7.

[464] UGI Electric St. No. 8, p. 19.

[465] *Id.*, pp. 19-20.

[466] *Id.*, p. 20.

[467] *Id.*, pp. 13, 20; UGI Electric Exhibit B, Schedule DWD-3, p. 1.

explained, it is proper to use growth in EPS as the growth component in the DCF formula (and not dividends per share ("DPS") growth or growth in book value) because dividends cannot grow without growth in earnings.[468]

The results of applying the DCF to the Electric Utility Proxy Group are shown in UGI Electric Rebuttal Exhibit B, Schedule DWD-1R, page 7, which is reproduced below.[469]

Mean	10.85%
Median	10.78%
Average of Mean and Median	10.82%

Mr. D'Ascendis then relied upon an average of the mean and the median results of the DCF, specifically 10.82% applicable to the Electric Utility Proxy Group, in order to take into consideration all proxy company results while mitigating high- and low-side outliers.[470]

b. The Company's RPM Analysis Further Supports Its Requested ROE

The RPM[471] uses the risk/reward relationship to estimate the cost rate of common equity by taking a building block approach. It begins with returns (yields) on long-term bonds, which can be directly observed and measured. The theory underlying the RPM is that market data (historical or prospective) can be used to estimate the "risk premium" of common equity over the yield on bonds that investors require to purchase common stock.[472] Under the RPM, the cost of common equity is the sum of the expected cost rate for long-term debt, plus a premium over that cost rate to compensate common shareholders for the added risks of being unsecured and last-in-

[468] UGI Electric St. No. 8, p. 20.
[469] UGI Electric Rebuttal Exhibit B, Schedule DWD-1R, p. 7.
[470] UGI Electric St. No. 8, p. 20; UGI Electric St. No. 8-R, p. 5; UGI Electric Rebuttal Exhibit B, Schedule DWD-1R, p. 7.
[471] Mr. D'Ascendis explained the theoretical basis for the RPM in his testimony. UGI Electric St. No. 8, pp. 21-22.
[472] *Id.*, pp. 17, 21.

line for any claim on the corporation's earnings and assets.[473] Mr. D'Ascendis specifically used a "total market approach" in applying the RPM, which adds a prospective bond yield to an average of the equity risk premiums he calculated using three different approaches: (1) an equity risk premium derived from a beta-adjusted total-market equity risk premium; (2) an equity risk premium based on the S&P Utilities Index; and (3) an equity risk premium based on commission-authorized ROEs determined for electric utilities in 1,279 fully-litigated proceedings from January 1, 1980, through June 12, 2026.[474]

The starting point for all of Mr. D'Ascendis's RPM analyses is determining the bond yield that is appropriately applied to the Electric Utility Proxy Group.[475] Because both ratemaking and the determination of the cost of capital are prospective in nature, prospective yields on long-term bonds having credit ratings similar to those of the Electric Utility Proxy Group are called for.[476] For this purpose, Mr. D'Ascendis relied upon a consensus forecast of the expected yield on corporate bonds rated by Moody's as Aaa, which indicated a prospective yield of 5.46%.[477] In order to adjust the expected Aaa-rated corporate bond yield to an equivalent A2-rated public utility bond yield, Mr. D'Ascendis made an upward adjustment of 0.35%, which represents a recent spread between Aaa-rated corporate bonds and A2-rated public utility bonds.[478] Adding that recent 0.35% spread to the expected Aaa-rated corporate bond yield of 5.46% results in an expected A2-rated public utility bond yield of 5.81%.[479] Since the Electric Utility Proxy Group's average Moody's long-term issuer rating is Baa1, another adjustment to the expected A2-rated public

---

[473] *Id.*, pp. 21-22.
[474] *Id.*, pp. 21-22, 30-31; UGI Electric Rebuttal Exhibit B, Schedule DWD-1R, p. 24.
[475] *Id.*, p. 22.
[476] *Id.*
[477] *Id.*; UGI Electric Rebuttal Exhibit B, Schedule DWD-1R, p. 20.
[478] *Id.*
[479] *Id.*

utility bond was needed to reflect the difference in bond ratings.[480] An upward adjustment of 0.11%, which represents two-thirds of a recent spread between A2-rated and Baa2-rated public utility bond yields, was necessary to make the prospective bond yield applicable to a Baa1-rated public utility bond.[481] Adding the 0.11% to the 5.81% prospective A2-rated public utility bond yield results in a 5.92% expected bond yield applicable to the Electric Utility Proxy Group.[482]

Mr. D'Ascendis used a variety of data sources to calculate the equity risk premiums under the methods previously described. The results of those methods were summarized on page 24 of UGI Electric Rebuttal Exhibit B, which is reproduced below[483]:

Equity Risk Premium Measure	**Equity Risk Premium**
Beta-Adjusted Equity Risk Premium	4.35% - 5.54%
S&P Utilities Index Equity Risk Premium	5.30%
Authorized ROE Equity Risk Premium	4.71%
Average	4.79% - 5.18%

Summing the bond yield for the Electric Utility Proxy Group of 5.92% with the average equity risk premiums of 4.79% to 5.18%, Mr. D'Ascendis calculated an RPM derived common equity cost rate of 10.71% to 11.10% based on prospective interest rates.[484]

c. The CAPM Analysis Performed by the Company Further Supports Its Requested ROE

The CAPM[485] is applied by adding a risk-free rate of return to a market risk premium that is adjusted in proportion to the systematic risk of an individual stock relative to the market. The

[480] UGI Electric St. No. 8, p. 23; UGI Electric Rebuttal Exhibit B, Schedule DWD-1R, p. 20.
[481] *Id.*
[482] *Id.*
[483] *Id.*, p. 31; UGI Electric Rebuttal Exhibit B, Schedule DWD-1R, p. 24.
[484] *Id.*, p. 32; UGI Electric Rebuttal Exhibit B, Schedule DWD-1R, p. 20.
[485] Mr. D'Ascendis explained the theoretical basis for the CAPM in his testimony. UGI Electric St. No. 8, pp. 32-33.

systematic risk of an individual stock is measured by beta.[486] Accordingly, the traditional CAPM is expressed by the following equation[487]:

$$R_s = Rf + ß\,(R_m - R_f)$$

Where:	R_s	=	Return rate on common stock
	R_f	=	Risk-free rate of return
	R_m	=	Return rate on the market as a whole
	ß	=	Adjusted beta (volatility of the security relative to the market as a whole)

Numerous empirical tests have confirmed that security returns and beta are correlated in the way the CAPM correctly assumes.[488] However, the results of that testing also show that the empirically derived Security Market Line or "SML" (i.e., the correlation between returns and beta) is not as steeply sloped as the traditional CAPM predicts.[489] This means that for stocks with lower betas (i.e., lower levels of volatility), the traditional CAPM understates returns; conversely, for higher beta stocks, it overstates returns.[490] The financial literature strongly supports this conclusion.[491] This is particularly important for determining the cost of equity for utilities, which generally have low betas.[492]

The Empirical CAPM ("ECAPM") was developed to adjust the CAPM result to account for the less steeply sloped SML that the empirical data demonstrate.[493] The ECAPM is a well-established model that is used and relied upon by regulators and the academic community.[494]

---

[486] *Id.*, p. 32.
[487] *Id.*, p. 33.
[488] *Id.*
[489] *Id.*
[490] *Id.*, p. 34, Figure 1 (depicting average annualized monthly returns versus the beta for Value Weight Portfolios formed on prior beta, 1928-2003).
[491] The financial literature is reviewed in detail by Mr. D'Ascendis. UGI Electric St. No. 8, pp. 33-37.
[492] UGI Electric Exhibit B, Schedule DWD-6, p. 1 (showing mean and median betas for the Electric Utility Proxy Group of 0.60 and 0.60, respectively).
[493] UGI Electric St. No. 8, pp. 33-34.
[494] *Id.*, pp. 33-37.

Accordingly, Mr. D'Ascendis used the average of the traditional CAPM and the ECAPM to calculate his proposed CAPM equity cost rate.[495]

Mr. D'Ascendis obtained betas for the Electric Utility Proxy Group from *Value Line,* which calculates beta over a five-year period, and Bloomberg, which calculates beta over a two-year period.[496] Both sources adjust their beta to reflect the tendency of beta to regress to the market mean of 1.00 over time.[497]

For the risk-free rate of return used in both the CAPM and ECAPM applications, Mr. D'Ascendis employed the average forecast of 30-year Treasury bonds for the six quarters ending in the third calendar quarter of 2027 as well as longer-term projections for the years 2028 to 2032 and 2033 to 2037.[498] This calculation produced a risk-free rate of 4.84%.[499]

Mr. D'Ascendis used five measures of market risk premiums in his updated analysis: three analyses using historical market data and two analyses using projected market data.[500] The market risk premiums based on historical market data are 7.37%, 7.67%, and 10.81%, while the market risk premiums based on projected market data are 7.53% and 18.60%.[501] Mr. D'Ascendis used the average of measures one through four of market risk premiums, excluding the MRP based on the total return on the market based on the S&P 500, which resulted in a market risk premium of 8.34%.[502]

Using the average market risk premium of 8.34% and the risk-free rate of return of 4.84%, Mr. D'Ascendis calculated the average CAPM cost rates for his Electric Utility Proxy Group of

[495] *Id.*, p. 35.
[496] *Id.*, p. 38.
[497] *Id.*
[498] *Id.*, p. 47; UGI Electric Rebuttal Exhibit B, Schedule DWD-1R, p. 32.
[499] *Id.*
[500] UGI Electric St. No. 8-R, p. 49.
[501] *Id.*
[502] *Id.*; UGI Electric Rebuttal Exhibit B, Schedule DWD-1R, p. 32.

10.17% (using his traditional approach which includes both *Value Line* and Bloomberg betas) and 11.30% (using only *Value Line* betas).[503]

d. The Non-Price Regulated Proxy Group Analysis Presented by the Company Shows that the Company's Requested ROE Is Reasonable and Below the ROEs of Comparable Non-Price Regulated Entities

Since the purpose of rate regulation is to be a substitute for marketplace competition, UGI Electric witness Mr. D'Ascendis also utilized a Non-Price Regulated Proxy Group, in order to account for comparable, non-price regulated firms competing for capital in the same marketplace as the Electric Utility Proxy Group.[504] He applied the DCF Model, the RPM and the CAPM to the Non-Price Regulated Proxy Group in the same manner he applied those models to the Electric Utility Proxy Group except, understandably, he did not use public utility-specific equity risk premiums in his application of the RPM.[505] Mr. D'Ascendis calculated equity cost rates from applying each model to the Non-Price Regulated Proxy Group as follows[506]:

Discounted Cash Flow Model	10.80%
Risk Premium Model	11.09% - 11.97%
Capital Asset Pricing Model	10.92% - 11.87%
Mean	10.94% - 11.55%
Median	10.92% - 11.87%
Average of Mean and Median	10.93% - 11.71%

As seen above, the average of the mean and median of these models indicate a range of cost rates from 10.93% to 11.71%.[507]

[503] *Id.*, pp. 47, 49; UGI Electric Rebuttal Exhibit B, Schedule DWD-1R, pp. 30-31.
[504] UGI Electric St. No. 8, p. 50.
[505] *Id.*, p. 51.
[506] *Id.*, p. 53; UGI Electric Rebuttal Exhibit B, Schedule DWD-1R, p. 36.
[507] UGI Electric St. No. 8, p. 53; UGI Electric Rebuttal Exhibit B, Schedule DWD-1R, p. 36.

e. The Company's Adjustments to Reflect Size-Based Business Risk, Credit Risk, and Flotation Costs Should Be Adopted

UGI Electric witness Mr. D'Ascendis also demonstrated that the Company has greater relative risks than the Electric Utility Proxy Group based on size.[508] It is well-established that smaller firms are generally less able to cope with significant events that affect sales, revenues, and earnings, such as business cycles and economic conditions, both nationally or locally.[509] In addition, Mr. D'Ascendis performed two studies that link size and risk for utility companies.[510] The first study indicated that as company size decreases, annualized volatility increases, while the second study showed that as company size decreases, the *Value Line* Safety Ranking degrades.[511] Both indicate increased investment risk due to size.

Mr. D'Ascendis used published market data (NYSE, American Stock Exchange, and NASDAQ) for the period 1926-2025 to quantify the premium investors require to invest in smaller firms.[512] These data show that the median size (measured by total capitalization) of the Electric Utility Proxy Group is $27.625 billion, which places the average company in the Electric Utility Proxy Group in the 2nd decile.[513] UGI Electric's market capitalization, however, was $225.447 million, which placed it in the 10th decile.[514] The size premium, based on the published market data, showed a spread of 4.10% between the 2nd and 10th deciles (i.e., an average company in the 10th decile would have a cost of equity higher by 4.10% than an average company in the 2nd

508 *Id.*
509 *Id.*, pp. 54-57.
510 *Id.*, pp. 57-59.
511 *Id.*
512 *Id.*, p. 60.
513 *Id.*; UGI Electric Rebuttal Exhibit B, Schedule DWD-1R, p. 43.
514 *Id.*;

decile).[515] Based upon these analyses, Mr. D'Ascendis conservatively recommended a size premium of 0.40% to UGI Electric's indicated range of ROEs.[516]

In addition, Mr. D'Ascendis proposed a downward credit risk adjustment of 0.06% to the ROE, which he stated is "necessary to reflect the less risky credit rating, i.e., A3, of UGI Electric's relative to the Electric Utility Proxy Group's Baa1 average Moody's bond rating."[517] Mr. D'Ascendis derived the 0.06% downward adjustment by taking one-third of a recent three-month average spread between Moody's Baa2- and A-rated public utility bond yields of 0.17%, shown on page 21 of UGI Electric Rebuttal Exhibit B, Schedule DWD-1R, or 0.06%.[518]

Mr. D'Ascendis further recommended an adjustment to the indicated range of ROEs to account for flotation costs (i.e., costs associated with the sale of new issuances of common stock).[519] This adjustment is needed to recognize that for every dollar raised through debt or equity offerings, the Company receives less than one full dollar in financing, where this fact cannot otherwise be recognized in ratemaking.[520] Indeed, none of the models used reflect flotation costs, and if these costs are not recognized, it would penalize investors that fund utility operations.[521] Thus, Mr. D'Ascendis applied an adjustment of 0.12% based upon issuance costs shown in UGI Electric Rebuttal Exhibit B, Schedule DWD-1R.[522]

---

[515] *Id.*
[516] UGI Electric St. No. 8-R, p. 5; UGI Electric Rebuttal Exhibit B, Schedule DWD-1R, p. 43.
[517] UGI Electric St. No. 8-R, p. 5; UGI Electric St. No. 8, pp. 61-62.
[518] UGI Electric St. No. 8-R, p. 62; UGI Electric Rebuttal Exhibit B, Schedule DWD-1R, p. 45.
[519] *Id.*, p. 63.
[520] *Id.*
[521] *Id.*, pp. 64-65.
[522] *Id.*, p. 66; UGI Electric Rebuttal Exhibit B, Schedule DWD-1R, p. 45.

3. Other Parties' ROE Recommendations Are Unreasonable and Inadequate and Would Fail to Provide the Company with a Reasonable Opportunity to Earn a Fair Return on Undisputed Investments

I&E and OCA made specific recommendations on what they believe to be an appropriate ROE for UGI Electric. As explained herein, and as will be more fully addressed in UGI Electric's Reply Brief, the recommendations advanced by these parties are flawed and, if adopted, would not provide UGI Electric with a reasonable opportunity to earn a return on undisputed and important infrastructure investments during the FPFTY.

a. I&E's ROE Recommendation Should Be Rejected

i. I&E Errs in Rejecting Its Long-Preferred DCF Model, Which Aligns with the Company's DCF Model and Produces a Reasonable Result

I&E has long preferred the DCF and, *inter alia*, with its own expert witness, Mr. Patel, previously testifying that the DCF "contains the most up-to-date projected information of any model and is the superior method for determining the rate of return for the current economic market because it measures the cost of equity directly."[523] In this case, I&E's DCF produced an ROE of 10.18%.[524] Also, UGI Electric witness D'Ascendis identified bias with I&E witness Patel's application of the DCF Model.[525] Specifically, while Mr. Patel eliminated the S&P and Zacks growth rates for Entergy Corporation ("ETR") based on the growth rate estimates being greater than two standard deviations over his proxy group's average growth rate of 7.43%, he does not eliminate growth rates that are two standard deviations below his proxy group's average (i.e., the 3.00% growth rate for ETR), even though this would also fail a non-biased two standard deviation test.[526] Equally applying Mr. Patel's outlier test to high and low outliers results in an indicated

---

[523] UGI Electric St. No. 8-R, p. 21 (describing departure of I&E witness Patel from the historical approach of I&E and the historical approach taken by Mr. Patel with respect to preferred ROE models).

[524] I&E St. No. 2, p. 7.

[525] UGI Electric St. No. 8-R, p. 26.

[526] *Id.*

DCF cost rate of 10.60% as shown in UGI Electric Exhibit B, Schedule DWD-4R.[527] Therefore, I&E's DCF calculation should only be given credence in this matter if it is updated to eliminate bias.

ii. I&E's CAPM Analyses Are Flawed and Cannot Be Given Comparable Weight to Its DCF Analysis

I&E witness Patel also performed two CAPM analyses, which he averaged as a part of his ROE recommendation in this proceeding.[528] For the first CAPM analysis, he used a projected 10-year Treasury yield for his risk-free rate and an average of an expectational market return and a historical 1926-2025 average market return to arrive at a CAPM result of 9.97%.[529] In his second analysis, Mr. Patel utilized a historical 20-year Treasury yield and Kroll's recommended market risk premium ("MRP") to arrive at a result of 8.66%.[530] However, both analyses are significantly flawed and understate an appropriate ROE as a result.

The primary flaw in I&E witness Patel's CAPM analyses is that they incorrectly rely upon the yield of medium-term 10-year or 20-year Treasury bonds as a risk-free rate instead of long-term 30-year Treasury bonds, which produces a systematic understatement of the risk-free rate.[531] Importantly, the use of the 10-year Treasury note divorces I&E's recommendation regarding equity investments made in long-lived infrastructure, from the life of the assets being valued.[532]

In addition, Mr. D'Ascendis identified an issue with Mr. Patel's projected risk-free rate, as he omitted the forecasted interest rate data available to him for the period of 2032-2036.[533] His failure to incorporate the longest projection available is inconsistent with the application of the

---

[527] *Id.*
[528] I&E St. No. 2, p. 7.
[529] UGI Electric St. No. 8-R, p. 26.
[530] *Id.*, pp. 26-27.
[531] UGI Electric St. No. 8-R, pp. 27-29.
[532] *See id.*
[533] *Id.*, p. 28.

DCF Model, under which there is an assumption that the projected "g" is constant in perpetuity.[534] Thus, Mr. Patel's omission of that forecasted interest rate data creates a mismatch and is inconsistent with the Efficient Market Hypothesis ("EMH") on which his DCF is based.[535]

Relatedly, Mr. Patel's estimate of his *Value Line*-based market return relies solely on the May 22, 2026 *Value Line Summary and Index* report.[536] However, he relies upon the average of the spot dividend yield and the 52-week average dividend yield for purposes of his DCF.[537] If Mr. Patel had been consistent across the methods he used, his CAPM him would have (and should have) utilized an average *Value Line*-based market return of 11.61% and an overall market return of 11.98%.[538]

Mr. Patel also relied upon a non-transparent MRP of 5.00% from Kroll.[539] Kroll does not define how they calculate their expected market return or how they derive their normalized risk-free rate and, therefore, it is not known if those inputs are based on market measures.[540] Furthermore, Kroll is a less accurate predictor of returns as compared to the long-term arithmetic mean return.[541]

Finally, given Mr. Patel's views on the CAPM, he should have applied an ECAPM analysis.[542] He did not do so.

If these flaws in Mr. Patel's CAPM analysis were corrected, UGI Electric witness Mr. D'Ascendis demonstrated that Mr. Patel's CAPM analysis would have actually produced an ROE

[534] *Id.*, pp. 28-29.
[535] *Id.*
[536] *Id.*, p. 30.
[537] *Id.*
[538] *Id.*
[539] *Id.*, pp. 30-31.
[540] *Id.*, p. 31.
[541] *Id.*, pp. 31-33.
[542] *Id.*, p. 33.

of 10.27%.[543] Correction of these errors produced a CAPM result for I&E that would otherwise be well within the range of CAPM results prepared by the Company.

iii. I&E's Equal Weighting of Its Long-Preferred DCF Model with Its Flawed CAPM Analyses and a Historic Analysis of Authorized Returns Unreasonably Decreases the Market-Based ROE Determined by Its DCF Model

Setting aside the significant flaws in I&E's CAPM analysis, the ALJs and the Commission should scrutinize I&E witness Patel's fundamental shift in how he has presented an ROE recommendation in this case as compared to prior cases, which has been noted previously. Although UGI Electric supports the use of multiple methods to develop an authorized ROE, it appears that I&E has departed from its long-preferred methodology, and the methodology preferred by its offered rate of return witness, to produce a lower ROE recommendation.

Importantly, I&E witness Patel has historically criticized the CAPM, and indicated that, in his opinion, this model should not be relied upon and only recently, in the PAWC 2026 Rate Case, argued that the CAPM analysis should be given any weight.[544] Despite this historical position of Mr. Patel and I&E, along with Mr. Patel reiterating his opinion regarding the flaws regarding the CAPM in this case,[545] Mr. Patel has recently flipped his position and provided his CAPM result the exact same weight as his DCF result in this case.[546]

I&E also attributed equal weight to the national average of authorized ROEs reported by S&P Global Market Intelligence for the period of 2025 to 2026.[547] Yet, UGI Electric witness D'Ascendis explained that authorized ROEs are a lagging indicator of investor-required returns, which will not reflect market conditions or investor expectations in a current case.[548]

---

[543] *Id.*, pp. 36-37.
[544] *See, e.g.*, UGI Electric St. No. 8-R, p. 21; *PAWC 2026 Order*, pp. 194, 207.
[545] I&E St. No. 2, p. 26.
[546] *Id.*, p. 7.
[547] *Id.*, pp. 7, 36.
[548] UGI Electric St. No. 8-R, pp. 37-38.

UGI Electric supports the use of multiple methodologies to determine an appropriate ROE, but that approach should be taken in every case. However, the abrupt methodological shift made by I&E witness Patel—which affords the same weight to the DCF (i.e., the "superior method") and two other methods that Mr. Patel relied upon—appears designed to deflate the result of I&E's DCF analysis and produce a lower overall ROE recommendation. Moreover, the flaws in the other methods I&E weighs as a part of its ROE analysis further demonstrate that its averaging of the DCF with these other methods should be rejected. I&E's DCF calculation is the only aspect of I&E's ROE analysis that should be given credence in this matter, once updated to eliminate bias.

b. OCA's ROE Recommendation Is Flawed and Fails to Satisfy the Legal Standards Applicable to Determining a Reasonable ROE

i. OCA Places No Weight upon its Fatally Flawed DCF Analysis

As an initial matter, OCA witness Garrett's ROE recommendation of 8.7% (at his hypothetical capital structure) is tied to his CAPM analysis showing a cost of equity of 8.7%.[549] Although his DCF analysis apparently played no role in his ultimate ROE recommendation, Mr. Garrett's DCF analysis contains fatal flaws that serve to understate the market-based ROE.

First, Mr. Garrett assumes a single, perpetual growth rate of 3.80% for all of his proxy group companies which is equal to the nominal Gross Domestic Product ("GDP").[550] However, this is not based on any measure of company-specific growth, or growth in the utility industry in general.[551] UGI Electric Witness Mr. D'Ascendis then explained that:

> Under the DCF model's strict assumptions . . . [,] expected growth and dividend yields are inextricably related. Mr. Garrett's assumption that one growth rate applies to all companies, even

[549] OCA St. 3SR, p. 61.
[550] UGI Electric St. No. 8-R, p. 53.
[551] *Id.*, pp. 53-54; *see* Tr. 369.

> though dividend yields vary across those companies, has no basis in theory or practice.[552]

Moreover, Mr. Garrett is not aware of any instance where the Commission has relied upon the GDP to establish the growth rate used in the DCF analysis.[553] He further admitted that the GDP growth rate takes into account all companies both regulated and non-regulated, is not a company-specific growth rate, and is not specific to a particular industry.[554]

Second, by assuming a single, perpetual growth rate of 3.80% for all of his proxy group companies, Mr. Garrett is assuming that these companies will grow at real rates of approximately 1.60% in perpetuity.[555] Essentially, he is assuming that an investor would rationally assume the risks of equity ownership in exchange for expected growth barely greater than expected inflation.[556] However, under such conditions, an investor would more likely determine that the risks are not worth the expected return.[557] Also, as a practical matter, because they are generic in nature, Mr. Garrett's estimate fails to account for the risks and prospects faced by the proxy companies.[558]

OCA's DCF analysis is fundamentally flawed and assumes irrational behavior by investors. Thus, it cannot and should not be relied upon to determine an appropriate ROE in this matter.

ii. OCA's CAPM Analysis Relies on a Flawed Market-Risk Premium and Does Not Include an ECAPM Analysis

While OCA witness Garrett performed a CAPM analysis, UGI Electric demonstrated that the MRP used by Mr. Garrett and his failure to perform an ECAPM analysis undermine his

---

552 UGI Electric St. No. 8-R, p. 54 (emphasis added).
553 Tr. 368-69.
554 Tr. 369.
555 UGI Electric St. No. 8-R, pp. 53-54.
556 *Id.*, p. 54.
557 *Id.*
558 *Id.*

conclusions.[559] With respect to his proposed MRP estimate of 4.90%, Mr. Garrett relied upon: (1) a survey of expected returns from IESE Business School (5.30%); (2) an expected return reported by Kroll (Duff & Phelps) (5.00%); (3) implied MRP from Damodaran (5.00%); and (4) an "Implied Equity Risk Premium" calculation (5.00%).[560] Based on those results, he concluded that the average of his range, 4.90%, is appropriate.[561] However, the Kroll estimate of 5.00% is flawed for the same reasons applicable to I&E's reliance on this data point.[562] In addition, Mr. D'Ascendis explained that survey-based MRPs are not widely relied upon.[563] Regarding Mr. Garrett's implied MRP, Mr. D'Ascendis explained that the first stage and terminal growth rates assumed by Mr. Garrett are significantly flawed.[564] Finally, the implied market returns relied upon by OCA are even less accurate than the Kroll estimates relied upon by I&E.[565] Accordingly, OCA's CAPM analysis should be disregarded.

c. OSBA's Testimony Regarding an Appropriate ROE Should Be Rejected

OSBA did not offer a specific ROE recommendation. However, OSBA witness Ewen opined that the Company's proposed ROE does not adequately consider customers' interests and that the Commission should carefully consider ratepayers' interest, affordability concerns, and the risk reduction benefits of a low-risk regulatory environment in evaluating the Company's cost of capital in this proceeding.[566] As explained above, the Company's market-based ROE analysis fully comports with *Hope* and *Bluefield*, and UGI Electric's proposed authorized ROE is just and reasonable. Therefore, OSBA's claims regarding ROE should be rejected.

---

559 UGI Electric St. No. 8-R, p. 63.
560 *Id.*
561 *Id.*
562 *Id.*, p. 64.
563 *Id.*, pp. 64-65.
564 *Id.*, pp. 66-68.
565 *Id.*, pp. 69-70.
566 OSBA St. No. 1, pp. 4-5.

4. Conclusion Regarding ROE

UGI Electric has an undisputed ongoing need to raise capital at reasonable rates, so that it can continue providing safe and reliable electric distribution service in Pennsylvania. The Company has been significantly underearning for several years,[567] and its proposed ROE of 10.85% is fully justified by market-based analyses of comparable entities with comparable risks to UGI Electric. Other parties' testimony regarding an appropriate ROE is largely based upon flawed analyses, and, in the case of I&E, run contrary to the sworn testimony of its own expert witnesses in prior base rate proceedings within the last 12 months and its own historical positions in base rate cases. The Commission should reject those claims and adopt UGI Electric's proposed ROE of 10.85% as reasonable and appropriate, so that the Company has a fair opportunity to earn a reasonable return on its projected investments in the FPFTY.

IX. RATE STRUCTURE AND RATE DESIGN

Once UGI Electric's overall revenue requirement is established, the next step in the ratemaking process is to perform an Allocated Cost of Service Study ("ACOSS") to allocate the utility's costs to the customer classes, apportion the increase in the revenue requirement to the customer classes based on the results of the ACOSS and other factors, and design rates that provide the Company with a reasonable opportunity to recover the revenue requirement increase.

In this proceeding, UGI Electric engaged an expert witness, Cynthia S. Fang, Director at Atrium Economics, LLC, to perform those tasks.[568] As explained herein, Ms. Fang's ACOSS is founded upon well-established ratemaking principles and is consistent with the Company's past methodology for evaluating cost of service. Specifically, Ms. Fang utilized a well-supported minimum system study to identify the portion of distribution plant investment that is required to

---

[567] UGI Electric St. No. 1-R, p. 9.
[568] UGI Electric St. No. 11, p. 2.

provide a basic minimum level of service to each customer, regardless of load.[569] That portion was classified as customer-related, while the remaining portion was classified as demand-related.[570] Importantly, the Commission has affirmed the use of the minimum system method in several proceedings, including UGI Electric's last fully litigated rate case in 2018.[571] Nevertheless, OCA has disputed the use of the minimum system study to classify certain primary and secondary distribution plant accounts and, instead, has argued that 100% of that distribution plant should be classified as demand-related.[572] As the Commission did in UGI Electric's 2018 Rate Case, the Commission should reject OCA's recommendation and affirm the use of the minimum system method.

The Company also proposed a revenue allocation in its testimony that would reasonably move all customer classes toward their cost of service, thereby reducing the subsidies that currently exist among customer classes.[573] Although OSBA's proposed revenue allocation was substantially similar to the Company's proposal, OCA recommended relying on the results of its own ACOSS and capping the increase to any single customer class to no more than 1.15 times the system average increase.[574] However, UGI Electric established that OCA's ACOSS was flawed and that OCA's revenue allocation proposal would actually move certain classes away from parity.[575] Furthermore, the non-unanimous settlement reached by UGI Electric and OSBA represents a reasonable compromise of the parties' positions on revenue allocation, as will be further explained in the Company's Statement in Support.

---

[569] *Id.*, p. 22.
[570] *Id.*
[571] *Id.*, p. 21.
[572] *See* OCA St. 1SR, pp. 11-12.
[573] UGI Electric St. No. 11-R, pp. 15-20.
[574] OSBA St. No. 1, p. 9; OCA St. 1, p. 4.
[575] UGI Electric St. No. 11-R, pp. 18, 20.

Moreover, UGI Electric's rate design is sound, and the other parties generally agreed with several aspects of the Company's proposed rate design.[576] The primary point of disagreement on rate design among the parties has been the fixed customer charges, particularly the residential and small general service customer charges. UGI Electric proposed to increase the residential charge from \$10.75 to \$22.00 and the small general service charge from \$17.00 to \$30.00.[577] In its testimony, OSBA accepted the Company's proposed changes to its customer charges.[578] Meanwhile, I&E recommended limiting the customer charge increases for the customer classes to approximately 24%, which would result in a \$13.30 charge for residential customers and \$21.10 charge for small general service customers.[579] OCA and CEO opposed any increase in the residential and general service customer charges. However, UGI Electric's testimony justified the Company's proposed increases to these charges.

Lastly, as will be further explained in the Company's Statement in Support, UGI Electric and OSBA's non-unanimous settlement presents a reasonable compromise of the parties' positions. Under that settlement, the Company's proposed customer charges would be approved, except for Rate R, Rate GS-1, and Rate GS-5, which would see reduced increases to \$12.00, \$25.00, and \$12.00, respectively.

Therefore, and as explained in the sections below and will be further explained in the Company's Statement in Support, the ALJs and the Commission should reject any arguments opposing the Company's ACOSS, revenue allocation, and rate design and, instead, adopt the revenue allocation and rate design in the Joint Petition for Non-Unanimous Settlement of All Issues.

[576] *Id.*, pp. 20-21.
[577] *See, e.g.*, UGI Electric St. No. 11-R, pp. 24-30.
[578] OSBA St. No. 1, pp. 9-11.
[579] I&E St. No. 3, p. 10.

A. COST OF SERVICE STUDY

An ACOSS serves two purposes: (1) providing the cost-basis for the allocation of the jurisdictional cost of electric distribution service that makes up the total base revenue requirement to the various customer classes (e.g., residential, commercial and industrial) based on their use of the Company's system; and (2) providing the cost-based reference for the development of the Company's rate design proposals.[580]

In this case, UGI Electric's ACOSS is contained in Exhibit D and fully distributes the Pennsylvania jurisdictional costs of providing retail distribution service to the various rate classes at both present and proposed rates.[581] UGI Electric selected the Atrium excel based model ("Atrium ACOSS Model") to conduct the ACOSS in this general base rate case.[582] The Atrium ACOSS Model was developed by Atrium on a proprietary basis for its consulting engagements and has been used in multiple jurisdictions.[583] This is the same Atrium ACOSS Model that UGI Electric presented in UGI Electric's last base rate case at Docket No. R-2022-3037368.[584] Further, there are no material differences, in output and format, between the Atrium ACOSS Model used in this case and the past ACOSS models that UGI Electric presented in UGI Electric's 2021 base rate case at Docket No. R-2021-3023618 and 2018 base rate case at Docket No. R-2017-2640058.[585]

The Company's ACOSS was developed using a standard, widely accepted cost-based ratemaking framework that consists of functionalization, classification, and allocation.[586] This three-step approach is commonly used in electric utility cost of service studies and is consistent

[580] UGI Electric St. No. 11, p. 10.
[581] *Id.*, p. 4; *see* UGI Electric Exhibit D – Allocated Cost of Service Study (Fully Projected).
[582] UGI Electric St. No. 11, p. 20.
[583] *Id.*
[584] *Id.*
[585] *Id.*
[586] *Id.*, p. 11.

with guidance provided in the NARUC Electric Utility Cost Allocation Manual.[587] The functionalization step organizes costs according to the functions they support within the electric distribution system.[588] The classification step takes those functionalized costs and then classifies them based on the factors that drive the incurrence of the costs.[589] For purposes of this ACOSS, the costs were classified as customer, demand, or energy related.[590] Finally, the allocation step takes the classified costs and allocates them to customer classes using allocation factors that reflect cost causation and customer usage characteristics, while, to the extent possible, directly assigning revenues, operating expenses, and rate base.[591] This structured approach provides transparency into how costs flow through the study and ensures consistency between the ACOSS and the Company's underlying revenue requirement.[592]

The ACOSS results provide cost-based guidelines for evaluating both interclass revenue relationships and the design of rates within each class.[593] At the class level, the revenue-to-cost ratios indicate whether existing rates recover more or less than a class's indicated cost of service.[594] Where a class is under- or over-recovering relative to its allocated costs, rate adjustments can be considered to move class revenues closer to cost responsibility and bring class rates of return nearer to the system average rate of return.[595] In this way, overall rate levels are better aligned with the cost of providing service.[596]

---

587 *Id.*
588 *Id.*, pp. 11-12.
589 *Id.*, pp. 11-14.
590 *Id.*, pp. 13-14.
591 *Id.*, pp. 14-15, 23.
592 *Id.*
593 *Id.*, p. 30.
594 *Id.*
595 *Id.*
596 *Id.*

The Commonwealth Court has, however, concluded that the class cost of service is the "polestar" of utility ratemaking.[597] Although class cost of service studies may appear to have great precision, the Commission has repeatedly recognized that the cost of service study is only a guide to designing rates and is only one factor, albeit an important one, to be considered in the rate setting process.[598] Cost allocation studies require a considerable amount of judgment and are described as more of an accounting/engineering art rather than science.[599] Thus, despite its heightened importance in the ratemaking process, cost allocation remains an inexact science, and there is no single correct cost allocation methodology.

The central cost of service issue in this proceeding concerned the allocation of primary and secondary distribution plant assets. As explained by UGI Electric witness Fang, "[d]istribution costs in FERC Accounts 364 (Poles, Towers, and Fixtures), 365 (Overhead Conductors and Devices), 367 (Underground Conductors and Devices), and 368 (Transformers) were classified between customer-related and demand-related components using a Minimum System Study ('MSS')."[600] The purpose of the MSS was to identify the portion of distribution plant investment that is required to provide a basic minimum level of service to each customer, regardless of load.[601] That portion was classified as customer-related, while the remaining portion of plant investment, which varies with load and system capacity requirements, was classified as demand-related.[602]

---

[597] *See Lloyd v. Pa. PUC,* 904 A.2d 1010, 1020 (Pa. Cmwlth. Aug. 4, 2006) ("*Lloyd*").

[598] *See, e.g., Pa. PUC v. Aqua Pa., Inc.,* Docket Nos. R-00072711, *et al.*, 2008 Pa. PUC LEXIS 50, at *84 (Order entered July 31, 2008) ("*Aqua 2008 Order*"); *Pa. PUC v. Pa. Power & Light Co.*, 1983 Pa. PUC LEXIS 22, at *192 (Order entered Aug. 19, 1983).

[599] *Application of Metro. Edison Co.*, R-00974008 (Order dated June 30, 1998); *Pa. PUC v. Pa. Power & Light Co.*, 55 PUR 4th 185 (Order entered Aug. 19, 1983).

[600] *Id.*, p. 22.

[601] *Id.*

[602] *Id.* UGI Electric notes that UGI Electric Exhibit D, Section II.2 contains a more comprehensive explanation of the process, including primary and secondary categorization of these assets. *Id.*, pp. 22-23.

OCA witness Deupree disagreed with the Company's reliance on the MSS to classify primary and secondary distribution plant assets in these accounts as being partially customer-related.[603] Instead, he recommended relying on his alternative cost of service approach, alleging that it would better align cost causation principles and the way the Company's distribution system is designed and operated.[604] Specifically, in his alternative ACOSS, Mr. Deupree classified 100% of the costs associated with the primary and secondary distribution plant assets included in FERC Accounts 364-368 as demand-related.[605]

The ALJs and Commission should reject OCA's arguments for several reasons. First, as noted previously, the Commission previously affirmed the use of the MSS in UGI Electric's 2018 Rate Case and denied OCA's alternative methodology presented in that case, stating the following in its Final Order:

> Additionally, as UGI and the OSBA both highlighted, the Commission has affirmed the use of the "minimum system method" as the accepted approach to classify and allocate distribution system costs in several proceedings. See 2012 PPL Order, supra; see also, Pa. PUC v. PPL Electric Utilities Corp., Docket No. R-2010-2161694, (Order entered December 21, 2010) (2010 PPL Order). Further, we find that UGI's ACOSS is consistent with the NARUC Manual and more accurately reflects cost-causation principles than the ACOSS methodology proposed by the OCA.[606]

Nothing presented by OCA in this case warrants disturbing the Commission's prior reliance on UGI Electric's minimum system method.

Second, 100% demand classification of poles, conductors, and transformers would allocate a greater share of distribution costs to larger customers than is supported by the cost characteristics

---

[603] OCA St. 1, p. 29; OCA St. 1SR, pp. 11-12.
[604] OCA St. 1, p. 4.
[605] OCA St. 1, p. 29; OCA St. 1SR, pp. 11-12.
[606] UGI Electric St. No. 11-R, pp. 4-5.

of these facilities.[607] Electric distribution plant exhibits significant economies of scale: the cost per unit of capacity for larger transformers, conductors, and related facilities is generally lower than the cost per unit associated with smaller facilities used to serve residential customers.[608] A demand-only allocator does not recognize these differences in unit costs or the customer-related function of facilities needed to connect customers to the electric distribution system.[609] As a result, OCA's proposal to use a demand-only allocator would tend to understate the cost responsibility of smaller customers and overstate the cost responsibility of larger customers relative to the Company's MSS-based approach.[610] Conversely, by classifying distribution plant between customer- and demand-related components, the Company's MSS-based approach better reflects the cost characteristics of facilities used to serve different customer groups.[611] For example, residential customers generally require more numerous and smaller-scale facilities, such as line transformers and related distribution infrastructure, which tend to have higher unit costs per kilovolt-ampere ("kVA") than larger facilities used to serve higher-demand customers.[612] A demand-only allocation does not recognize these unit-cost differences or the customer-connection function of distribution facilities.[613] Thus, as a result, absent a minimum system component, distribution costs would tend to be understated for smaller customers and overstated for larger, higher-demand customers relative to the Company's cost-causation analysis.[614]

Third, when addressing the authoritative sources relied upon by OCA witness Deupree in support of his arguments, UGI Electric witness Fang observed that Mr. Deupree overlooked certain

[607] *Id.*, p. 6.
[608] *Id.*
[609] *Id.*
[610] *Id.*
[611] *Id.*, p. 7.
[612] *Id.*
[613] *Id.*
[614] *Id.*

passages or mischaracterized the authors' conclusions.[615] Ms. Fang also pointed to other authoritative sources that support the recognition of the customer component of upstream distribution facilities, including Dr. James Suelflow's treatise, Public Utility Accounting: Theory and Practice, which declared that "distribution transformers and primary and secondary lines including conductors and devices (account 365 'Distribution Plant') and poles and towers (account 364 'Distribution'), all contain capacity and customer costs."[616]

Fourth, Mr. Deupree failed to provide persuasive evidence that these distribution costs do not vary with the number of customers.[617] In actuality, the accounts at issue are driven by multiple factors, so investment in these facilities would not be expected to move solely with changes in customer counts.[618] Also, distribution investments are often planned, approved, and constructed over multiple years and are frequently implemented through large, discrete projects rather than occurring in a smooth annual pattern.[619] For that reason, comparing annual customer changes to annual plant additions does not provide a reliable basis for assessing the extent to which customer growth contributes to the need for distribution system investment.[620] Moreover, with respect to secondary distribution facilities, the need for service connections, secondary conductors, transformers, poles, and other facilities arises because customers must be connected to the distribution system before they can receive electric service.[621] Therefore, customer counts are plainly relevant to the need for at least some portion of these facilities.[622]

---

615 *Id.*, pp. 7-10.
616 *Id.*, p. 10.
617 *Id.*, pp. 10-13.
618 *Id.*, p. 11.
619 *Id.*, pp. 11-12.
620 *Id.*
621 *Id.*, pp. 12-13.
622 *Id.*, p. 13.

Based on the foregoing, UGI Electric established that its ACOSS is sound and reliable and that OCA's arguments against the Company's ACOSS lack merit and should be rejected.

B. REVENUE ALLOCATION

1. Introduction

UGI Electric's proposed allocation of revenue among the rate classes is primarily driven by the cost to serve each class. As indicated by the Commonwealth Court in *Lloyd*, cost of service is the "polestar" of utility rates.[623] While other factors, such as gradualism, may be considered, these factors are not permitted to "trump" cost of service as the primary basis for allocating the revenue increase.[624] Consistent with the Commonwealth Court's directive in *Lloyd*, a proposed revenue allocation will only be found to be reasonable where it moves distribution rates for each class closer to the full cost of providing service.[625]

Even prior to *Lloyd*, the importance of properly allocating a proposed revenue increase among a utility's rate classes was recognized by Pennsylvania appellate courts. In *Philadelphia Suburban Water Company v. Pa. PUC*, the Commonwealth Court stated:

> [I]n order for a rate differential to survive a challenge brought under Section 1304 of the Public Utility Code [bar against rate discrimination], the utility must show that the differential [different rates among the classes] can be justified by the difference in costs required to deliver service to each class. The rate cannot be illegally high for one class and illegally low for another.[626]

Indeed, any significant departure from the results of a cost of service study requires the proponent to fully justify the deviation.

[623] *Lloyd*, 904 A.2d at 1020.
[624] *Id.* at 1020-21.
[625] *Pa. PUC v. PPL Elec. Utils. Corp.*, Docket Nos. R-00049255, *et al.*, 2007 Pa. PUC LEXIS 55 (Order On Remand entered July 25, 2007).
[626] 808 A.2d 1044, 1060 (Pa. Cmwlth. 2002).

As explained below, UGI Electric's proposed revenue allocation is consistent with regulatory practice and precedent, including the *Lloyd* decision. Contrary to UGI Electric's proposal to neutrally allocate revenues consistent with the cost to serve each class, OCA attempts to allocate revenues in a manner that ignores the cost to serve each class solely to allocate less of the proposed revenue increase to the residential class. Therefore, and for the reasons more fully explained below, OCA's improper allocation should be rejected.

2. UGI Electric's Revenue Allocation Is Reasonable

The revenue allocation proposed by UGI Electric in its testimony followed the results of UGI Electric witness Fang's cost of service study, UGI Electric Exhibit D – Allocated Class Cost of Service Study (Fully Projected). In its revenue allocation, UGI Electric witness Fang proposed moderation to the revenue apportionment because moving immediately to equalized rates of return across customer classes could result in significant changes in allocated revenues for certain classes.[627] This is particularly true where a utility has a small customer base; the customer base is largely within one rate class, and the largest rate classes are well below the cost of service.[628] Therefore, the Company moderated the revenue apportionment to balance cost-of-service principles with considerations of gradualism and customer impacts.[629]

Specifically, under the Company's proposal, the as-filed overall revenue increase of 12.0% was distributed across the customer classes in a manner that moves classes closer to their cost of service while avoiding the larger revenue shifts that would occur under a fully equalized rate of return approach.[630] As shown in Table 5 in Ms. Fang's direct testimony, the proposed class revenue changes range from 2.24% for the General Service-4 class to 22.47% for the General

[627] UGI Electric St. No. 11, p. 33.
[628] *Id.*
[629] *Id.*
[630] *Id.*

Service customers, compared to the larger increases and decreases that would result from strictly equalizing class rates of return.[631] The resulting parity ratios under the Company's proposal range from 0.95 for the General Service class to 1.20 for the Large Power class, representing an improvement relative to current levels while maintaining reasonable rate stability across customer classes.[632]

OCA and OSBA presented their own proposals on revenue allocation. OCA's revenue allocation was based on OCA's alternative ACOSS and also capped the rate increase to any single customer class to no more than 1.15 times the system average increase.[633] On the other hand, OSBA's revenue allocation utilized the Company's ACOSS and limited the rate increase to the General Service class to 1.5 times the system average, with the remaining revenues being assigned to the Residential class.[634] The following Tables 2R, 3R, and 4R from UGI Electric witness Fang's rebuttal testimony compare the parties' positions on revenue allocation:

Table 2R - Comparison of Revenue Increase by Class Among Parties

	UGI Electric		OCA		OSBA	
Rate Classes	**Proposed Revenue Increase**	**% Increase Allocation**	**Proposed Revenue Increase**	**% Increase Allocation**	**Proposed Revenue Increase**	**% Increase Allocation**
Residential	$ 15,383	89.01%	$ 12,875	74.50%	$ 15,619	90.37%
General Service	1,181	6.84%	763	4.42%	946	5.47%
General Service - 4	314	1.81%	1,646	9.52%	314	1.82%
Flood Control Power	2	0.01%	6	0.04%	2	0.01%
Large Power	331	1.92%	1,992	11.53%	331	1.92%
Lighting	71	0.41%	-	0.00%	71	0.41%
Total	**17,283**	**100.00%**	**17,283**	**100.00%**	**17,283**	**100.00%**

635

[631] *Id.*
[632] *Id.*
[633] OCA St. 1, p. 40; OCA Exhibit DWD-5.
[634] OSBA St. No. 1, p. 9.
[635] UGI Electric St. No. 11-R, p. 17.

Table 3R – Comparison of Revenue Allocation by Class Among Parties

	Current UGI Electric		Proposed UGI Electric			OCA			OSBA		
Rate Classes	Revenues	% Allocation	Proposed Revenue Allocation	% Allocation	% Change from Current	Proposed Revenue Allocation	% Allocation	% Change from Current	Proposed Revenue Allocation	% Allocation	% Change from Current
Residential	$ 109,152	75.76%	$ 124,535	77.17%	14.09%	$ 122,027	75.62%	11.80%	$ 124,771	77.32%	14.31%
General Service	$ 5,258	3.65%	$ 6,440	3.99%	22.47%	$ 6,021	3.73%	14.52%	$ 6,204	3.84%	17.99%
General Service - 4	$ 13,973	9.70%	$ 14,286	8.85%	2.24%	$ 15,619	9.68%	11.78%	$ 14,287	8.85%	2.25%
Flood Control Power	$ 21	0.01%	$ 23	0.01%	9.84%	$ 27	0.02%	29.86%	$ 23	0.01%	9.52%
Large Power	$ 13,858	9.62%	$ 14,189	8.79%	2.39%	$ 15,850	9.82%	14.38%	$ 14,189	8.79%	2.39%
Lighting	$ 1,823	1.27%	$ 1,894	1.17%	3.92%	$ 1,823	1.13%	0.00%	$ 1,894	1.17%	3.89%
Total	**$ 144,085**	100.00%	**161,368**	**100.00%**	**12.00%**	**$ 161,368**	**100.00%**	**12.00%**	**$ 161,368**	**100.00%**	**12.00%**

636

Table 4R – Comparison of Parity Ratio by Class Among Parties

		Proposed		
Rate Classes	**Current UGI Electric**	**UGI**	**OCA**	**OSBA**
Residential	0.95	0.97	0.95	0.97
General Service	0.87	0.95	0.89	0.91
General Service - 4	1.22	1.11	1.22	1.11
Flood Control Power	1.00	1.00	1.18	1.00
Large Power	1.31	1.20	1.34	1.20
Lighting	1.28	1.19	1.15	1.19
Total	**1.00**	**1.00**	**1.00**	**1.00**

637

As these table illustrate, UGI Electric's proposed allocation of revenue requirement among the rate classes is reasonable and achieves substantial progress in moving rate classes toward the system average relative rate of return. Indeed, the Company's revenue allocation would move all rate classes toward parity.[638] By contrast, OCA's proposed revenue allocation would move two rate classes (i.e., FCP and Large Power) *away* from parity.[639] Therefore, OCA's revenue allocation is unreasonable, fails to comport with the principles of *Lloyd*, and should not be adopted.

---

[636] *Id.*
[637] *Id.*, p. 18.
[638] *Id.*
[639] *Id.*

Furthermore, as noted previously, OCA's alternative ACOSS should be rejected for several reasons. Once Mr. Deupree's erroneous ACOSS is rejected, consistent with prior Commission treatment for this methodology, Mr. Deupree's proposed revenue allocation must also fail because it does not properly reflect the cost of service.[640]

3. Universal Service Cost Allocation

OCA witness Colton recommended that CAP costs be allocated among all customer classes through a flat fee basis.[641] Mr. Colton proposed that the "interclass allocations should be based on each class's allocation of total distribution revenue requirement (excluding taxes) agreed to in a settlement of this case, or that is approved by a final PUC Order if the case is litigated."[642] In purported support of his recommendations, Mr. Colton generally contended that the universal service costs are "caused by factors endemic to society as a whole," so all customer classes should be allocated the costs associated with CAP.[643]

UGI Electric witness Fang testified that CAP cost allocation among customer classes is an important program-design issue that should be considered in the broader Universal Service Program context, rather than resolved as a standalone adjustment in this base rate case.[644] That broader review would allow the Commission to consider eligibility, benefits, funding responsibility, cost recovery, and impacts on both participating and non-participating customers together, and to do so consistently across utilities within its jurisdiction.[645] Addressing CAP cost

[640] *See UGI Electric 2018 Order*, pp. 159-60 (rejecting OCA's arguments against UGI Electric's ACOSS that was based on the minimum system method); *PPL Electric 2012 Order*, p. 113 (rejecting OCA cost of service methodology); *see also Lloyd*, 904 A.2d at 1020.

[641] OCA St. 6, pp. 5, 82-94.

[642] *Id.*, p. 5.

[643] *See, e.g.*, *id.*, p. 83.

[644] UGI Electric St. No. 11-R, p. 80.

[645] *Id.*

allocation in that setting would preserve cost-of-service ratemaking in this proceeding while allowing affordability program design issues to be evaluated comprehensively.[646]

Although Ms. Fang did not recommend that the Commission adopt a specific CAP cost-allocation, nor has UGI Electric proposed to change how CAP costs are allocated as a part of this proceeding, any such methodology should be evaluated in the appropriate Universal Service Program or policy forum, where funding responsibility, allocation methodology, program design, and customer impacts can be considered together on a consistent record.[647]

Lastly, UGI Electric notes that this issue is addressed through the non-unanimous settlement reached by the Company and OSBA, as will be further explained in UGI Electric's Statement in Support.

C. RATE DESIGN AND CUSTOMER CHARGES

1. Summary of Proposed Rate Design

UGI Electric currently provides electric distribution service under several rate schedules that apply to different customer classes based on usage characteristics and service requirements.[648] The principal customer classes and rate schedules addressed in this proceeding include Residential ("R"), General Service ("GS-1"), General Service-5 ("GS-5"),[649] General Service-4 ("GS-4"), Flood Control Power ("FCP"), Large Power ("LP"), and Lighting service.[650] These rate schedules establish the distribution charges applicable to customers receiving service from the Company.[651]

---

[646] *Id.*

[647] *Id.*

[648] UGI Electric St. No. 11, pp. 37-38.

[649] As noted in the Company's rebuttal testimony, UGI Electric determined after the filing of its case that Rate GS-5 should consist of certain qualifying customers that are required by statute to be offered rates equal to those of Rate R. *See* UGI Electric St. No. 1-R, p. 29. Therefore, the Company modified its proposal to align the Rate GS-5 rate design, including the customer charge, with the proposed rate design for Rate R. *See id.* As such, the arguments in the Company's brief as to Rate R apply equally to GS-5.

[650] *Id.*, p. 38.

[651] *Id.*

Under the present rate structure, most customer classes are billed through a combination of a monthly customer charge and a volumetric distribution charge, with the volumetric charge generally applied on a flat per-kilowatt-hour basis.[652] Larger commercial and industrial customers receiving service under Schedules GS-4 and LP are also subject to demand charges, reflecting the impact of their peak demand on the distribution system.[653] These demand charges are currently structured using two-block demand rates, while volumetric charges for these classes are structured using three-block or four-block declining block energy rates.[654]

To properly reflect the fixed and variable costs of service associated with its proposed revenue allocation, UGI Electric proposed the following key changes to its current rate design:

1. Increasing the customer charge for all rate schedules with current customer charges and establishing a customer charge for Rate LP to better reflect the customer-related costs associated with providing electric distribution service.[655]
2. For the non-residential customers in Rates GS-4 and LP with demand charges, moving the demand charges to be more cost-based.[656]
3. For non-residential customers in Rates FCP, GS-4, and LP, beginning to transition away from the current block rate structures for distribution and demand charges by moderating or eliminating the existing blocks.[657]

UGI Electric witness Fang explained that the Company's rate design reasonably balances key rate design objectives, including: (1) achieving fair and equitable rate levels that are reflective of the cost to serve; (2) avoiding undue discrimination between and within rate classes; (3) developing

---

[652] *Id.*
[653] *Id.*
[654] *Id.*
[655] *Id.*, pp. 39-40.
[656] *Id.*, p. 40.
[657] *Id.*, pp. 40-41. Ms. Fang also noted that the Company did not propose any changes to the rate design for Lighting customers. *Id.*, p. 41.

rates that are stable and understandable; (4) creating economically efficient pricing for delivery service; (5) encouraging conservation and efficient use; (6) recovering the revenue requirement in a manner that maintains revenue stability and minimizes year-to-year under- or over-collections, and (7) simplifying and improving the understandability of rates.[658]

The Company also proposed several modifications to its tariff.[659] UGI Electric witness Epler summarized the Company's proposed tariff modifications, including rate schedule revisions, in her direct testimony.[660] As an example, the Company proposed tariff modifications affecting its largest load customer class, Rate HTP (High Tension Power).[661] Rate HTP is a fully negotiable rate, and UGI Electric proposed to include the DSIC and Universal Service Program riders as eligible charges for Rate HTP customers.[662] If approved, this proposal would allow UGI Electric to negotiate the application of these riders to Rate HTP customers, who are currently excluded from both riders.[663] While the Company currently has no customers that take service under Rate HTP, UGI Electric believes that it is prudent to establish the appropriate framework that would allow large load customers to contribute to the overall health of the system and the affordability of distribution service.[664] As UGI Electric witness Rogers explained, this modification would "ensure that if a data center were to seek service from UGI Electric, that entity would provide direct affordability benefits to other classes of customers through contributions to the Universal

---

[658] *Id.*, p. 50.
[659] *See* UGI Electric St. No. 10, pp. 8-9.
[660] *Id.*
[661] UGI Electric St. No. 1, p. 10.
[662] *Id.*
[663] *Id.*
[664] *Id.*

Service Programs and the DSIC."[665] No party opposed the Company's proposed tariff modifications to Rate HTP and, therefore, they should be approved.

As for rate design, the other parties generally agreed with or did not oppose the Company's rate design proposals. Other parties, however, took issue with the rate design as follows: (1) I&E proposed alternative increases in the customer charges for Rates R and GS-5, GS-1, FCP, and GS-4, premised upon limiting all the customer charge increases to approximately 24%[666]; (2) OCA and CEO opposed any increase in the residential customer charge;[667] and (3) OCA opposed any increase in the customer charge for small general service customers.[668]

For the reasons explained in the following sections, the Company's proposed customer charges are fully supported by the record. Moreover, as will be further addressed in UGI Electric's Statement in Support, the modifications to those customer charges in the Company's non-unanimous settlement with OSBA reflect a reasonable compromise of the parties' litigation positions, are supported by record evidence, and should be approved.

2. Residential Charges

a. The Company's Proposed Customer Charges Are Reasonable

Based on the results of its ACOSS and proposed revenue allocation, UGI Electric proposed the following increases in the customer charges.[669] UGI Electric witness Fang's ACOSS, which provides cost-based reference levels for customer charges, demonstrated that residential customers have a monthly customer cost of $28.48.[670] In fact, OCA witness Deupree's own analysis showed an estimated customer-related cost of $27.26 per month.[671] Thus, UGI Electric's proposed

[665] UGI Electric St. No. 1-R, pp. 31-32.
[666] I&E St. No. 3, pp. 10-11.
[667] OCA St. 1, p. 51; CEO St. No. 1, p. 7.
[668] OCA St. 1, p. 51.
[669] UGI Electric St. No. 11, p. 46.
[670] *Id.*, p. 44.
[671] OCA St. 1, p. 44.

monthly customer charge of $22.00 is reasonable in light of the amount justified by both Ms. Fang's and Mr. Deupree's analyses.

UGI Electric's customer charge substantially addresses the cost to serve the residential class at an amount that is fully justified by the Company's customer cost analysis. Therefore, UGI Electric's proposed rate design for the residential customer class should be approved.

b. UGI Electric Fully Rebutted I&E's Recommendation to Limit the Increase in the Residential Customer Charge

The Company opposed I&E's recommendation to reduce the proposed customer charges, including the residential customer charge, based on a uniform cap.[672] I&E witness Cline's recommendation would apply a generalized constraint without accounting for class-specific cost relationships or the extent to which existing customer charges remain below cost-based levels.[673] Mr. Cline's proposed customer charges, if adopted, would not make any progress as to the percentage of fixed customer costs recovered through the customer charge compared to the Company's last three rate cases, as shown by Ms. Fang in Table 2RJ, reproduced below[674]:

[672] UGI Electric St. No. 11-R, p. 47.
[673] *Id.*
[674] UGI Electric St. No. 11-RJ, p. 13.

Table 2RJ: Historical Percentage of Customer Costs Recovered through the Residential Customer Charge

	Docket No.	PA PUC Customer Costs	Proposed Customer Charge	Approved Customer Charge	Percentage of Costs Recovered through Customer Charge
2018 Rate Case	R-2017-2640058	$19.01	$14.00	$8.74	46%
2021 Rate Case	R-2021-3023618	$21.52	$14.00	$9.50	44%
2023 Rate Case	R-2022-3037368	$22.47	$13.50	$10.75	48%
Current Recovery		$28.48	$10.75		38%
As Proposed by Witness Cline		$28.48	$13.30		47%
As Proposed by Company		$28.48	$22.00		77%

By contrast, the Company's proposal applied a measured approach by moving each class toward cost-based rates while considering bill impacts.[675] For residential customers specifically, the cost-based customer charge is materially higher than the Company's proposal.[676] The proposed charge therefore reflects a measured step toward cost-based recovery, not full movement to cost.[677] A uniform cap would slow progress where existing charges remain significantly below cost and would continue shifting customer-related costs into volumetric rates, weakening alignment with underlying cost drivers.[678] Thus, the Company's approach better reflects established rate-design principles by allowing incremental movement toward cost-based levels while incorporating gradualism, bill stability, and customer-impact considerations.[679]

[675] UGI Electric St. No. 11-R, p. 47.
[676] *Id.*
[677] *Id.*
[678] *Id.*
[679] *Id.*

c. OCA's and CEO's Recommendations to Retain the Existing Residential Customer Charge Should Be Rejected

Both OCA and CEO recommended that the existing customer charge of $10.75 be retained for Rate R customers.[680] As alleged support, OCA and CEO claimed that the Company's proposed customer charge would have negative impacts on conservation and affordability.[681] OCA witness Deupree also raised concerns regarding the effect of customer charge increases on low-usage customers.[682] Further, Mr. Deupree presented a comparison of UGI Electric's proposed customer charges to other residential and general service customer charges, asserting that the Company's customer charges would be too high by comparison.[683]

These arguments should be rejected. First, UGI Electric witness Fang demonstrated that current customer charges recover only a small fraction of the actual customer-related costs for most classes, generally less than 40% of costs in the case of residential customers.[684] The ACOSS indicates a cost-based residential customer-related cost of $28.48 per month, yet the Company is proposing a customer charge of $22.00 per month, which is still $6.48 below the full cost, or approximately 77% of the indicated customer-related cost.[685] In other words, even after the increase, the residential customer charge would remain below the cost to serve an average customer, demonstrating that the Company has moderated its proposal to balance cost recovery with gradualism and bill impact considerations.[686] By recovering a greater portion of customer-related costs through the fixed customer charge, the Company moves closer to aligning each customer's contribution with the costs incurred to provide access to the distribution system,

[680] OCA St. 1, p. 51; CEO St. No. 1, p. 7.
[681] *See, e.g.*, OCA St. 1, pp. 46-51; CEO St. No. 1, p. 4.
[682] *See* OCA St. 1, pp. 49-51.
[683] *Id.*, pp. 45-46.
[684] UGI Electric St. No. 11-R, p. 24.
[685] *Id.*
[686] *Id.*

regardless of usage level.[687] This promotes cost causation by reducing intra-class cost shifts that can occur when customer-related costs are recovered through usage-based rates.[688]

Second, as to the concerns about impacting conservation, shifting some revenue recovery from volumetric rates to the fixed customer charge does not eliminate a customer's ability to lower bills by conserving energy.[689] Even after the proposed changes, the majority of a typical residential bill will still be usage-based, meaning that customers retain both the incentive and the ability to reduce their bills through efficiency measures.[690]

Third, the Company's proposed increase also improves bill stability by recovering a greater portion of customer-related costs through a fixed monthly charge that is not affected by weather or other fluctuations in usage.[691] Greater bill stability and predictability can assist customers in planning for and managing monthly utility expenses.[692] This is consistent with the principle of stability, which recognizes that rates should promote reasonable bill stability for customers and revenue stability for the utility.[693] The relationship between bill stability and affordability is important because "affordability is influenced by not only the level of customer bills, but also by their timing, variability, and predictability."[694]

Fourth, low usage may be relevant to evaluating bill impacts, but it should not be treated as a reliable proxy for low income or affordability needs.[695] Customers may have relatively low usage for reasons unrelated to income, including household size, housing characteristics, appliance mix, occupancy patterns, seasonal residence, energy efficiency investments, or individual

---

[687] *Id.*, pp. 24-25.
[688] *Id.*, p. 25.
[689] *Id.*
[690] *Id.*, pp. 25-27.
[691] *Id.*, p. 29.
[692] *Id.*
[693] *Id.*
[694] *Id.*, pp. 29, 39.
[695] *Id.*, p. 30.

preferences.[696] Conversely, some low-income customers may have higher usage because of housing quality, heating and cooling needs, medical or household circumstances, or less efficient appliances.[697] To evaluate that issue, UGI Electric witness Fang compared the usage of confirmed low-income customers with usage for other residential customers.[698] Based on that analysis, she concluded that confirmed low-income customers averaged approximately 1,031 kWh per month, with a median of 733 kWh, compared with approximately 838 kWh per month and a median of 611 kWh for non-low-income customers.[699] While low-usage customers are a necessary consideration in evaluating customer impacts from rate design, her analysis confirmed that low usage does not serve as a reasonable proxy for low income or affordability needs.[700]

Fifth, the reasonableness of the Company's proposed customer charges should not be evaluated based on the customer charge level in isolation, but as part of the overall rate design and the balance among cost causation, gradualism, bill stability, conservation incentives, customer impacts, and revenue sufficiency.[701] Indeed, the Company's arrearage data shows that many residential customers remain in arrears throughout the year across multiple aging categories.[702] Viewed with seasonal bill data, those patterns indicate that some customers have limited financial flexibility and may face greater difficulty during higher-usage months.[703] Recovering more customer-related costs through a fixed monthly customer charge, rather than through weather-sensitive volumetric charges, moderates seasonal bill swings and improves predictability without eliminating the relationship between usage and bills.[704]

---

[696] *Id.*
[697] *Id.*
[698] *Id.*, pp. 30-31.
[699] *Id.*, p. 31.
[700] *Id.*, pp. 31-32.
[701] *Id.*, pp. 38-39.
[702] *Id.*, p. 34.
[703] *Id.*
[704] *Id.*, pp. 45-46.

For these reasons, OCA's and CEO's recommendations not to increase the Rate R customer charge should be rejected.

3. Non-Residential Charges

a. UGI Electric's Proposed Customer Charges for Rates GS-1, FCP, and GS-4 Are Reasonable

Based on the results of its ACOSS, UGI Electric proposed increases in the customer charges for Rates GS-1, FCP, and GS-4.[705] These customer charge increases are justified based on the ACOSS's results, and the increases were moderate to continue to move toward cost-based levels while maintaining gradualism and considering total bill impacts.[706] These proposed increases are supported by the record, and other parties' arguments in opposition to some or all of these increases should be rejected.

b. The Company Fully Rebutted I&E's Recommended Limit on the Increases in the Proposed Customer Charges for Rates GS-1, FCP, and GS-4

As noted previously in the Residential Charges section, UGI Electric addressed I&E's general limit to all the customer charge increases and demonstrated that I&E's approach was unreasonable.[707] The same arguments apply with respect to I&E's position on the customer charges for Rates GS-1, FCP, and GS-4, and UGI Electric incorporates those arguments by reference.

c. UGI Electric Addressed OCA's Arguments Regarding the Proposed Customer Charge for Rate GS-1

As observed in the Residential Charges section, OCA's opposition to any increase in the residential customer charge is flawed.[708]

---

[705] *See* UGI Electric St. No. 11, p. 46. As noted previously, the rate design for Rate GS-5 is tied to the rate design for Rate R, so it is addressed in the prior section on Residential Charges.
[706] *Id.*, pp. 45-46.
[707] *See* Section IX, C.2, *supra*.
[708] *See* Section IX, C.2, *supra*.

For the Rate GS-1 customer charge, UGI Electric incorporates by reference its arguments in opposition to OCA's position on the residential customer charge. Additionally, the Company notes that the Company's proposed GS-1 customer charge would continue to recover only a limited portion of a typical monthly bill.[709] For a GS-1 customer using 1,000 kWh per month, the fixed customer charge would increase from approximately 9.1% of the total monthly bill under current rates to approximately 13.8% under proposed rates.[710] Stated differently, more than 86% of the GS-1 bill would continue to be recovered through volumetric charges.[711] Thus, the Company's proposal preserves a substantial usage-based price signal for GS-1 customers, while continuing measured movement toward more cost-based recovery of customer-related costs.[712] Accordingly, OCA's recommendation on the Rate GS-1 customer charge should be rejected as well.

D. SCALE BACK

As explained throughout this Main Brief, the Company's proposed revenue requirement and associated rate increase reflected in its testimony is just and reasonable and fully supported by substantial record evidence. As a result, the lower revenue requirement reflected in the non-unanimous settlement is just and reasonable and should be approved without modification, along with the cost-based revenue allocation identified in the settlement. However, to the extent the Commission does not adopt the settlement and instead adopts a revenue requirement lower than the $16.05 million justified by the Company's evidence, the parties established positions regarding any scale back. Specifically, I&E witness Cline recommended that: (1) rate classes proposed to receive an increase be scaled back proportionally to their respective increases, based on the cost of service study ultimately approved by the Commission; and (2) if the Commission does not adopt

---

[709] UGI Electric St. No. 11-R, p. 27.
[710] *Id.*
[711] *Id.*
[712] *Id.*

I&E's proposed customer charges, the proposed customer charges should be included in the scale-back of rates.[713]

UGI Electric witness Fang agreed that some proportional class-level scale-back may be appropriate if the Commission approves a lower revenue requirement, but she disagreed that the proposed Rate R and Rate GS-1 customer charges should be scaled back proportionally.[714] Customer charges serve a distinct rate-design function: they recover customer-related costs that are incurred to provide access to the distribution system regardless of usage.[715] Where the proposed Rate R and Rate GS-1 customer charges remain below the cost-based levels indicated by the Company's customer cost analysis, reducing those charges as part of a proportional scale-back would move those rate components further away from cost causation and shift additional recovery back to volumetric rates.[716] That result would weaken the bill-stability and cost-alignment benefits of the Company's proposal and would not be preferable from a rate-design perspective.[717] Therefore, Ms. Fang explained that if the Commission approved a lower overall revenue requirement, any necessary reduction should first be reflected through volumetric charges that currently recover costs above cost-reflective levels, while maintaining the proposed Rate R and Rate GS-1 customer charges as measured steps toward cost-based fixed-cost recovery.[718]

X. <u>CUSTOMER SERVICE AND QUALITY OF SERVICE</u>

As noted previously, UGI Electric has been providing high-quality service to its customers. However, with one exception, OCA's recommendations on this subject should be rejected, for the reasons set forth in the following sections.

---

[713] I&E St. No. 3, p. 12.
[714] UGI Electric St. No. 11-R, pp. 48-49.
[715] *Id.*
[716] *Id.*, pp. 48-49.
[717] *Id.*, p. 49.
[718] *Id.*

A. CUSTOMER SERVICE PERFORMANCE

OCA witness Alexander raised concerns about the Company's call center performance, percentage of calls answered within 30 seconds, and abandonment rate. She recommends that the Company be required to meet its 2024-2025 call center performance standards in its rate effective year as a condition of any rate increase ordered in this proceeding and improve its call center performance in months with a higher level of customer calls to improve significant deterioration in those months.[719]

This recommendation should be rejected. UGI Electric witness Adamo noted that OCA witness Alexander made the same recommendation regarding any rate increase being contingent on maintaining call center performance in the *Columbia Gas 2025 Rate Case*.[720] In that proceeding, the Commission could "find no reason to adopt the OCA's proposal.[721]

Further, the Company already submits customer service performance metrics on an annual basis to demonstrate compliance against a standard.[722] The Company's internal performance metrics used to measure management quality are already evaluated through the periodic Commission Management Efficiency Audits in which the Company participates.[723] As such, her proposal is not necessary. In addition, the Company responded to OCA's data request OCA-3-47 regarding the Company's performance compared to its peers, and those results show that the Company is performing at a high level.[724]

Thus, Ms. Alexander's recommendations are not supported by the record, and the Commission should, as it did in the *Columbia Gas 2025 Order*, reject those recommendations.

---

[719] OCA St. 5, p. 5.
[720] *Columbia Gas 2025 Order*, pp. 311-12.
[721] *Id.*, p. 311.
[722] UGI Electric St. No. 13-R, pp. 3-4.
[723] *Id.* p. 4.
[724] *Id.*, p. 4.

B. SHOPPING COMMUNICATIONS AND BILL PRESENTATION

OCA witness Alexander also recommended that UGI Electric adopt "additional and more targeted customer communications to assist customers in ensuring affordability for basic electric service due to high EGS charges that appear on the customer bill that UGI collects under threat of termination of service."[725] According to Ms. Alexander, those targeted communications should "alert" customers to compare the rate they pay their EGS with the Price to Compare ("PTC").[726] Further, she proposed that UGI Electric's bill presentation be reformed, such that the PTC appear as a "Generation Charge" or make clear in the Shopping Information Box that the PTC is the price for the "Generation Charge."[727]

These proposals are unnecessary and costly. As discussed in the testimony of UGI Electric witness Adamo, the Company complies with the Commission's regulations with regard to bill formatting.[728] Further, the Company estimates the IT costs to program a PTC alert at approximately $150,000.[729] In her surrebuttal testimony, Ms. Alexander does little to address the concerns raised by Mr. Adamo, and instead maintains that in spite of the costs, she would like UGI Electric to use these targeted communications.[730] Such a conclusory justification does not warrant adoption of her proposal.

However, the more problematic aspect of her proposal is that the change of the PTC to "Generation Charge" on the bill conflicts with the Commission's regulations and reflects a fundamental misunderstanding of the PTC's components. Section 54.187 of the Commission's regulations specifically requires that a default service customer "be offered a single rate option,

[725] *Id.*, p. 6.
[726] OCA St. 5, p. 23.
[727] OCA St. 5, pp. 19-20.
[728] UGI Electric St. No. 13-R, p. 5.
[729] *Id.*, p. 6.
[730] OCA St. 5-SR, p. 12.

which shall be identified as the PTC and displayed as a separate line item on a customer's monthly bill."[731] Therefore, UGI Electric must display the PTC as a separate line item on the Company's bills. Furthermore, the PTC includes more than generation charges, contrary to Ms. Alexander's apparent understanding. Rather, the "PTC is equal to the sum of all unbundled generation and transmission related charges to a default service customer for that month of service."[732] Presenting this line item as only a "Generation Charge" would be inaccurate and confusing for customers, especially since the PTC terminology has been used for many years in the Commonwealth across the industry.[733]

Furthermore, in the *Columbia Gas 2025 Order*, the Commission expressly rejected a similar proposal by OCA.[734] As the Commission found in that case, "addressing these issues and imposing additional communication requirements regarding competitive supply rates in a specific" utility's base rate case, without the input of other important stakeholders, including "individual" suppliers "or representatives" of the supplier "community, is not appropriate."[735] Here, there likewise are no suppliers or representatives of the supplier community involved in the case, so these proposals should be rejected.

C. FIELD AGENT TRAINING

OCA witness Alexander recommended that the Company be required to create and implement field agent training and compliance oversight to implement the Chapter 56

[731] 52 Pa. Code § 54.187(c); *see also id.* § 54.182 (defining PTC as "[a] line item that appears on a retail customer's monthly bill for default service").
[732] *Id.* § 54.182 (emphasis added).
[733] *See, e.g.*, 52 Pa. Code § 54.182 (effective Aug. 11, 2012 per 42 Pa.B. 5185); *Pa. PUC v. UGI Utils., Inc. – Gas Div.*, 2000 Pa. PUC LEXIS 885, at *69-71 (Order entered June 29, 2000); *see also Petition of Pike Cnty. Light & Power Co. for Approval of its Default Serv. Implementation Plan for the Period of June 1, 2014 through May 31, 2016*, Docket No. P-2013-2371666, p. 16 (Order entered Mar. 20, 2014) (approving OCA's proposal to have the utility provide the one-year average PTC on its bills).
[734] UGI Electric St. No. 13-R, pp. 6-7.
[735] *Columbia Gas 2025 Order*, p. 389.

requirements to attempt personal contact immediately prior to termination of service with the minimum content that she has listed in her testimony.[736] She also suggested that the Company develop "agent training and compliance related documents" that reflect a written manual and include:

> [A] complete description of the obligation to knock on the customer's door prior to termination of service and require that the field agents are familiar with and can properly react to all the rights that a customer has to avoid termination of service, including a declaration of a medical emergency, a statement that payment has been made, a request for a payment plan and access to low income affordability programs, and indication of a protection from abuse order or other evidence of domestic violence.[737]

These recommendations should be denied. In his rebuttal, UGI Electric witness DeGiusto testified that field technicians "are not trained to function as customer service representatives or to assess sensitive customer matters such as medical conditions or income status," so that "they are not the appropriate resource to solicit or evaluate this type of information."[738] Mr. DeGiusto further explained that customers facing termination receive multiple notifications outlining their rights and available protections, including written correspondence such as the initial notice, 10-day notice, in-person contact via telephone three days prior to termination,[739] and a post-termination notice.[740] Therefore, the Company already provides multiple notices to customers explaining their rights and protections available related to medical conditions, income eligibility, and protections under the Protection From Abuse Act, as applicable.[741] Ms. Alexander failed to establish that this additional measure requiring field agents to attempt personal contact will improve outcomes for customers facing immediate termination.

---

[736] OCA St. 5, p. 5.
[737] *Id.*, pp. 17-18.
[738] UGI Electric St. No. 3, p. 9.
[739] If a telephone number is not available or is invalid, UGI Electric will attempt to provide the notice by home visit. *Id.*, p. 9 n.2.
[740] UGI Electric St. No. 3, p. 9.
[741] *Id.*, p. 10.

Thus, her recommendations should be rejected.

D. WEBSITE REFORMS

The ALJs and Commission should likewise reject OCA witness Alexander's allegations that UGI Utilities' website is "dominated by information for its larger gas service customer base" and her related recommendation to include a more targeted section of the website dedicated to electric customers.[742]

UGI Electric witness Adamo reviewed the Company's website and found that its navigation structure encompasses approximately 120 distinct pages, more than sixty percent of which apply to both natural gas and electric customers, including Billing and Payments, Customer Assistance Programs, Community Programs, News, Careers, and Company Information.[743] Fuel-specific content contains corresponding pages for each fuel in the Safety, Shopping for a Supplier, Rebates, and Tariffs sections.[744] Further, Mr. Adamo explained that the website may appear "dominated" by natural gas content because of the safety risks associated with natural gas compared with electric, and additional safety and leak-detection education is required.[745] Lastly, having natural gas on a property is a choice, unlike electric, which is already present on most properties, so natural gas customers need further education on appliances, conversion steps, and availability checks to adopt.[746] Therefore, Ms. Alexander's recommendations regarding UGI Utilities' website should be rejected.

E. ROOT CAUSE ANALYSIS

Ms. Alexander also recommended that UGI Electric be required to develop and implement the findings of a Root Cause Analysis of customer complaints similar to that ordered for UGI Gas

[742] OCA St. 5, p. 5.
[743] UGI Electric St. No. 13-R, p. 9.
[744] *Id.*
[745] *Id.*
[746] *Id.*

in its 2025 base rate case.[747] Ms. Alexander explained that, as part of the settlement, UGI was required to "categorize, track, review and remediate Justified Complaints and Verified Infractions issued by the Commission's Bureau of Consumer Services."[748]

The Company has not yet completed this commitment but fully supports this recommendation.[749] The Company also explained that the scope of the Root Cause Analysis, per the requirements of the UGI Gas 2025 base rate case settlement, includes UGI Electric.[750] Thus, the Company fully supports this recommendation, as it would not make sense to perform this analysis only for UGI Gas because they share the same call center resources.[751]

F. USE OF SOCIAL SECURITY NUMBERS

OCA witness Colton raised concerns and made recommendations regarding the collection of Social Security Numbers ("SSNs") due to the rise in identity theft.[752] Mr. Colton, however, never proposed an alternative.[753]

OCA's concerns and recommendations should be rejected. As explained by Mr. Adamo:

> [T]he Company asks for a new customer's SSN when they apply for service so that an Experian check can be run to verify their identity. If a customer does not wish to provide their SSN, they are able to provide their driver's license number as an alternative. Regarding enrollment for the Company's Universal Service Programs, SSNs were previously requested. However, pursuant to Paragraph 59(a) of the UGI Gas 2025 Rate Case Settlement, the Company agreed to implement the Commission's Common Application Form and is utilizing it for its Customer Assistance Program ("CAP") and Operation Share as of December 2025. This form does not request a SSN from applicants. Additionally, a SSN is requested, but not required, on the Low Income Usage Reduction Program ("LIURP") application. This information is used for validation in the event that

---

[747] OCA St. 5, p. 6.
[748] *Id.*, p. 18.
[749] UGI Electric St. No. 13-R, p. 4.
[750] *Id.*
[751] *Id.*
[752] *See* OCA St. 6, pp. 5, 70-82.
[753] UGI Electric St. No. 13-R, p. 8.

> the Company finds that the same household members are listed in applications for separate properties.[754]

As further discussed by Mr. Adamo, the Company does not share SSNs with affiliates or corporate entities.[755] Thus, Mr. Colton's recommendations here are a solution in search of a problem and should be rejected by the Commission.

XI. CUSTOMER ASSISTANCE PROGRAMS AND LOW-INCOME ISSUES

A. LOW-INCOME ISSUES

1. Identification of Low-Income Customers

OCA raises concerns regarding the Company's identification of low-income customers. In spite of the Company's compliance with Commission regulation and the proactive measures taken to assist low-income customers, OCA maintains that the Company does not adequately identify confirmed low-income customers.[756] The thrust of OCA's argument appears to be the perception that an insufficient number of customers avail themselves of the Company's customer assistance program ("CAP") and Low Income Home Energy Assistance Program ("LIHEAP"); therefore, UGI Electric must not be doing enough to reach these customers.[757]

To this end, OCA witness Colton recommended that the Company explore other means of establishing that a customer is low-income, including that the customers be allowed to establish that they are receiving "means-tested public assistance by providing either a printout or a screenshot through the State of Pennsylvania's COMPASS app," or provide other printouts of welfare verifications.[758] He also recommended that confirmed low-income customers negotiating deferred payment arrangements ("DPA") be provided a "stand-alone written Plain Language

[754] *Id.*
[755] *Id.*
[756] OCA St. 6, pp. 51-52.
[757] *Id.*, pp. 56-65.
[758] *Id.*, p. 58.

notice informing those customers of their right, in the alternative, to enroll in the Company's CAP."[759]

These recommendations are unnecessary. First, although Mr. Colton cited more than 5,700 confirmed low-income customers that are not enrolled in CAP, he failed to recognize that approximately 2,900 of those 5,700 customers (or 51%) are self-certified and have not yet gone through the Company's income verification process.[760] Accordingly, they are not eligible for enrollment in a Universal Service Program.[761] Also, the Company already conducts a twice-annual marketing campaign focused on self-certified customers who are not enrolled in CAP.[762] A marketing campaign addressing LIHEAP is undertaken on a similar schedule to the marketing campaign undertaken for CAP.[763]

Regarding Mr. Colton's recommendation that a COMPASS printout be used to verify confirmed low-income status, such a change is unnecessary and likely to lead to confusion. It is not clear that COMPASS information would establish consistency with the Company's universal service programs.[764] While Mr. Colton claims in his surrebuttal that whether this would establish consistency with the Company's universal service programs is irrelevant, as his recommendation was to use COMPASS information to verify confirmed low income status and not for the purposes of CAP enrollment,[765] this still hinges on his insistence that the Company need only to have a "reasonable expectation" that one is low income to consider them confirmed low-income.[766] This is not supported by regulation. The regulation states that a confirmed low-income residential

[759] *Id.*, p. 62.
[760] UGI Electric St. No. 12-R, p. 12.
[761] *Id.*
[762] UGI Electric St. No. 12-R, p. 6.
[763] *Id.*, p. 13.
[764] *Id.*, p. 17.
[765] OCA St. 6-SR, p. 24.
[766] *Id.*, p. 18.

account is an account "where the EDC has obtained information that would reasonably place the customer in a low-income designation."[767]

As discussed by UGI Electric witness Meilinger, the Company complies with the regulation in its definition of Confirmed Low-Income Customers. The Company's definition of Confirmed Low Income is consistent with the Commission's definition in 52 Pa. Code §§ 54.72 and 69.262, which states that households that fit these criteria include those that:

- Self-certify;
- Participate in any of the Company's income verified programs, including but not limited to CAP, Operation Share, or LIURP where income is verified to be at or below 150% FPL; and/or
- Have received LIHEAP funds in the prior 12 months.[768]

Notably, to the extent the definition discusses reasonableness, it does not refer to "reasonable expectation[s]" as OCA does, but information that would "reasonably place" the customer in a low-income status. To the extent the definition discusses other programs directly, it discusses LIHEAP. OCA is stretching the definition of reasonable here to include participation in programs outside of the Commission and Company's purview. Such a view is too expansive, and given the Company's adherence to the Commission's regulation, such recommendation should be rejected.

Regarding OCA witness Colton's recommendation that plain language notices of a customer's right to enroll in CAP if they are attempting to negotiate a DPA, this too is unnecessary. Call center representatives already discuss CAP with customers attempting to negotiate DPAs.[769] Expending additional resources for communications that would be effectively redundant is not necessary.

---

[767] 52 Pa. Code § 54.72.
[768] UGI Electric St. No. 12-R, p. 14.
[769] *Id.*, p. 15.

The Commission should reject OCA's recommendations, which ask UGI Electric to do more without supporting why more screening and more marketing will actually help these customers. Focusing on generalized social ills and broader affordability issues, OCA has failed to support why doing more is a prudent investment. The Company's procedures are reasonable and effective and, therefore, do not need to be modified.

2. Deposit Exemptions

OCA also expressed concerns with UGI Electric's application of security deposit exemptions. OCA witness Colton claimed that the Company is substantially noncompliant with the Commission's deposit exemption for low-income customers and recommends that UGI Electric "be directed to accept ***any*** information beyond information on income and household size that would 'attest to' the household's eligibility for a state benefit that is consistent with CAP income requirements."[770] Mr. Colton also recommended that UGI Electric "be directed to eliminate the requirement that a customer must apply for CAP in order to establish their eligibility for a deposit exemption."[771] Moreover, Mr. Colton recommended that within three months of a final order in this proceeding and for every three months thereafter, UGI Electric undertake a review of the cash security deposits it currently holds and report the results of such review to interested stakeholders in this case.[772]

As UGI Electric witness Meilinger clarified in his rebuttal testimony, CAP enrollment is not a prerequisite to receiving a deposit exemption, but the CAP application is utilized to streamline the process and have a uniform verification process for customers, allowing them to obtain the benefits of the deposit exemption and enroll in CAP if they so choose.[773] Further,

[770] OCA St. 6, p. 68.
[771] *Id.*
[772] *Id.*
[773] UGI Electric St. No. 12-R, p. 16.

"[c]ustomers who have received LIHEAP in the current or prior season do not need to verify income, as they have already been through that process with DHS, and UGI Electric recognizes this as an acceptable form of verification."[774] While OCA witness Colton accuses UGI Electric of making a "hyper-technical"[775] distinction, as a CAP application is required to receive a deposit exemption but enrollment in CAP is not, he is essentially trying to micromanage an income verification process that is consistent with Commission regulation and reflects the Company's effort to efficiently support low-income customers.[776]

Further, to the extent OCA expresses concerns about CAP being undersubscribed, allowing the Company to maintain its current process would also help encourage enrollment in CAP as it would direct more customers to the application. To adopt OCA's recommendations here would appear to run contrary OCA's concerns about UGI Electric's CAP enrollment levels.[777]

Additionally, the Company clarified how it processes the refunds of the security deposits: customers enrolled in autopay receive their deposit refunds by direct debit, while those not enrolled in autopay receive a check.[778] As for Mr. Colton's recommendation that within three months of a final order in this proceeding and for every three months thereafter, UGI Electric undertake review of the cash security deposits it currently holds and report the results of such review to interested stakeholders in this proceeding, this recommendation is not supported by any analysis as to why it is necessary to pursue a review of cash security deposits.[779] The Company has already implemented IT systems that automatically release a security deposit once a customer completes

[774] *Id.*
[775] OCA St. 6-SR, p. 26.
[776] *See* UGI Electric St. No. 12-R, pp. 16-18.
[777] *See* OCA St. 6, p. 57.
[778] UGI Electric St. No. 12-R, p. 17.
[779] *Id.*, pp. 17-18.

the income verification process.[780] Implementing OCA's recommendation would create a redundant process at a cost and would not solve an identified problem.[781]

Therefore, as discussed by UGI Electric witness Meilinger, the concerns that the Company is not compliant with the deposit exemption requirement have been fully addressed, and there is no need to adopt OCA's recommendations.

B. UNIVERSAL SERVICE PROGRAMS

In its direct testimony, the Company did not make any changes to its Universal Service programs. Such programs include: (1) CAP, which provides discounted monthly bills and arrearage forgiveness for customers at or below 150% of the Federal Poverty Income Guidelines; (2) Operation Share, which provides grants to eligible customers with household incomes up to 250% of the FPIG; (3) LIURP, which offers weatherization services to customers with incomes up to 200% of the FPIG; and (4) the Customer Assistance Referral and Evaluation Services ("CARES"), which offers referral services to other community support groups.[782]

Nonetheless, other parties have made a number of recommendations regarding the Company's Universal Service programs, namely CAP and LIURP. These recommendations should be denied.

1. CAP

Chief among the concerns raised about the Universal Service Programs are concerns regarding affordability. However, as discussed by UGI Electric witness Fang, utility programs and ratemaking are not intended to resolve all of the affordability pressures faced by customers.[783] Further, as discussed by UGI Electric witness Meilinger, the voluntary nature of CAP enrollment

[780] *Id.*, p. 18.
[781] *Id.*
[782] UGI Electric St. No. 12, pp. 3-5.
[783] UGI Electric St. No. 11-R, p. 3.

means that UGI Electric is unable to, on its own, solve the issue of there being low-income customers who are not enrolled in CAP.[784]

The testimony and recommendations offered by the other parties further do not take into account the substantial progress made in increasing CAP enrollment. As summarized by Mr. Meilinger in his rejoinder testimony:

> CAP enrollment has increased by 61% since 2022 (UGI Electric St. No. 12, at pp. 5-6). Additionally, Operation Share has provided nearly 1,600 Operation Share grants to low- to moderate-income customers since 2022 (UGI Electric St. No. 12, at p. 9) while the Company has also facilitated $2.4 million in Low Income Home Energy Assistance Program ("LIHEAP") grants since 2022 (UGI Electric St. No. 12 at p. 10). Furthermore, the Company is continuing its targeted marketing and outreach efforts to drive increased participation on a year-over-year basis.[785]

This is clear, measurable progress. Further, these increases in enrollment and participation will mitigate the impacts of the rate increase on low-income customers.[786] As discussed by Mr. Meilinger, 88% of CAP customers are on a Percent of Income Payment Plan ("PIPP") or minimum bill and are, therefore, insulated from the proposed base rate increase.[787]

2. LIURP

In her direct testimony, CEO witness Warabak proposed that the Company's LIURP funding be "at a minimum, increased by the commensurate increase in rates for the residential class that results from this proceeding," indicating that if the Company's residential customers' rates are increased by 6% in this proceeding, then the annual LIURP funding should also increase by 6%.[788]

---

[784] *See* UGI Electric St. No. 12-R, p. 12.
[785] UGI Electric St. No. 12-RJ, p. 2.
[786] *Id.*, p. 6.
[787] *Id.*
[788] CEO St. No. 1, p. 6.

The Company disagrees with this recommendation for multiple reasons, as outlined by UGI Electric witness Meilinger. The Company has not spent its full LIURP budget in the 2022-2025 timeframe; therefore, some of the additional funding to this program would likely go unspent.[789] In 2024, UGI Electric spent 83% of its Commission-approved LIURP budget, and in 2025, performance declined to only 60% of its budget.[790]

Further, Ms. Warabak indicated that she did not perform any analysis on community-based organizations' ("CBOs") ability to utilize increased LIURP budgets commensurate with the increase in rates for the residential class that results from this proceeding or UGI Electric's CBOs' ability to spend to their increased budget that resulted from the 2023 Base Rate Case Settlement.[791] Therefore, Ms. Warabak's recommendation should be denied.

Ms. Warabak also recommended that the Company's contribution to its hardship fund be increased commensurate with the percentage increase in rates to the residential class that results from this proceeding and that hardship funding be distributed in accordance with the percentage of low-income customers in the counties served by UGI Electric.[792] Her recommendation to increase hardship program funding would increase the Company's Operation Share program by 12.8%, or approximately $15,000 in additional funding.[793] The Company has already committed to increasing its Operation Share funding, regardless of the outcome of this Rate Case, to $150,000 annually for fiscal years 2027-2029.[794] Given that the Company's current Operation Share budget is $117,423, the increase to $150,000 is a 28% increase, or $32,577, which is more than double the recommendation in CEO witness Warabak's testimony.[795] This shows that UGI Electric is

[789] UGI Electric St. No. 12-R, p. 7.
[790] *Id.*, p. 8.
[791] CEO Response to UGI-II-5; CEO 14 Response to UGI-II-3.
[792] CEO St. No. 1, p. 7.
[793] UGI Electric St. No. 12-R, pp. 9-10.
[794] UGI Electric St. No. 12, p. 2.
[795] UGI Electric St. No. 12-R, p. 10.

already taking proactive and voluntary steps to increase affordability for its customers and has done so in a way that far exceeds CEO's proposal. Therefore, no further adjustment is needed to provide additional funding to UGI Electric's hardship fund.

In addition, Ms. Warabak's recommendation to distribute hardship funding in accordance with the percentage of low-income customers in the counties served by UGI Electric unnecessarily complicates the Company's distribution of assistance funding.[796] The Company operates in only two counties: Luzerne and Wyoming. Wyoming County has approximately 850 residential electric customers, and Luzerne County has approximately 54,000 residential customers.[797] Further, when asked in discovery, CEO was unable to provide the percentage of low-income customers in each county served by UGI Electric, stating that such information was "unknown."[798] Without an analysis of her recommendation to show how it could increase distribution of hardship funding and the skewed number of electric customers in the two counties that UGI Electric serves, the Commission should reject Ms. Warabak's proposal.[799]

XII. <u>OTHER ISSUES</u>

A. PUBLIC INPUT HEARING TESTIMONY

The Commission held four public input hearings in this proceeding to gather testimony from ratepayers on how the proposed increase would affect them. Two of these hearings were held in person, and two were telephonic. During those hearings, only 7 individuals testified.

One concern of customers was affordability. Approximately 15 people or communities from the public submitted written comments stating that UGI Electric's proposed rate increase would materially harm affordability and make essential electric service unaffordable for many

[796] *Id.*
[797] *Id.*
[798] *Id.*
[799] *Id.*, pp. 10-11.

households.[800] Individuals also asserted that they are struggling with higher costs for necessities, and that an additional rate increase will place a substantial burden on household budgets.[801]

The Company provides numerous programs to identify and assist low-income customers, as described in the testimony of UGI Electric witness Meilinger.[802] Further, UGI Electric witness Meilinger also addresses specific affordability concerns,[803] while UGI Electric witnesses Rogers and Fang address affordability more generally.[804] The record shows that UGI Electric has taken into consideration the affordability impacts of its operations, adjusted its operations where feasible in light of affordability considerations, proposed in its direct case steps to improve affordability without compromising the quality of service to customers, made substantial adjustments to its litigation positions in this case that will have a positive impact on the affordability of rates, and offers robust programs to support customers struggling to afford electric service. The affordability concerns raised by the public in this proceeding have been adequately addressed and do not provide a basis for further adjustments.

Another concern raised in the public input hearings was the construction of data centers, the additional demand they will place on the electric grid, and their potential impacts on the environment.[805] More specifically, concerns were raised that the demand from data centers is a primary driver of higher costs.[806]

However, UGI Electric does not currently serve any data center customers, nor does the Company have any executed agreements for service with any data centers.[807] As such, there is no

---

[800] OCA St. 7, p. 3.
[801] *See id.*, pp. 6-7.
[802] *See* UGI Electric St. No. 12.
[803] UGI Electric St. No. 12-R, pp. 2-11.
[804] *See, e.g.*, UGI Electric St. No. 1-R, pp. 14-27; UGI Electric St. No. 11-R, pp. 51-81.
[805] Tr. 77.
[806] *Id.*
[807] UGI Electric St. No. 1-R, p. 31.

impact on the Company's rate case resulting from data center customers, and no inappropriate subsidization is occurring.[808] Notwithstanding, UGI Electric has proposed in this case to modify its Rate HTP to ensure that if a data center were to seek service from UGI Electric, that entity would provide direct affordability benefits to other classes of customers through contributions to the Universal Service Programs and the DSIC.[809]

A customer also testified at the public input hearings regarding their dissatisfaction with UGI Electric's customer service, describing an instance where UGI dropped a transformer while replacing it.[810] UGI Electric witness DeGiusto specifically responded to this customer's concerns and provided additional context of the situation.[811] Mr. DeGiusto described the extensive and prompt response by UGI Electric to the customer's outreach and emphasized that "the Company and its employees responded promptly and fully to the customer's concerns and, in concert with the contractor involved in the issue, made repeated visits to the site to determine the extent of the issue and address the same."[812]

Lastly, a customer alleged that they experienced reliability issues.[813] However, Mr. DeGiusto discovered that since January 1, 2025, the customer has experienced two outages of 8 minutes and 11 seconds and 28 minutes and 4 seconds, with a total outage time of 36 minutes and 25 seconds.[814] Therefore, the "customer had power more than 99.999% of the time," which the Company does not believe represents a poor quality of service.[815] Further, systemwide, UGI Electric has had very strong reliability in recent years, including performing better than all three

---

[808] *Id.*
[809] *Id.*, pp. 31-32.
[810] Tr. 72-73.
[811] UGI Electric St. No. 3-R, pp. 10-11.
[812] *Id.*, p. 11.
[813] Tr. 76.
[814] UGI Electric St. No. 3-R, pp. 11-12.
[815] *Id.*, p. 12.

of the Commission's reliability benchmarks for Customer Average Interruption Duration Index ("CAIDI"), System Average Interruption Frequency Index ("SAIFI"), and System Average Interruption Duration Index ("SAIDI").[816] Overall, the costs requested in this case by the Company are necessary to maintain reliable service and reduce outages by replacing infrastructure, building a new substation, and continuing to accelerate vegetation management activities.

Also present at the public input hearings for this matter was Governor Josh Shapiro's Special Counsel for Energy Affordability, Mark Szybist, who made comments on behalf of Governor Shapiro.[817] Specifically, Mr. Szybist summarized the letter that Governor Shapiro sent to utility leaders in April 2026, stating that utility customers across Pennsylvania are experiencing higher utility costs.[818] While there are many factors that lead to increased utility prices, Governor Shapiro contended that several core causes are directly within the control of utility companies and result from their "policy and fiscal decisions, including the excessive rate requests several utilities have sought in recent years."[819] The letter then offers three practices to ensure Pennsylvanians are being considered and respected when utilities request a rate increase:

- **Capital Structure**: Raise the most cost-effective forms of capital.
- **Transparent Rationale**: 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.
- **Transparent Return on Equity Determination**: Provide transparent, justifiable equity returns.[820]

816 *Id.*
817 OCA St. 7, pp. 8-9.
818 Tr. 115-18.
819 Governor Shapiro Hearing Exhibit 1.
820 Governor Shapiro Hearing Exhibit 1; OCA St. 7, p. 9.

Based on these three practices, Mr. Szybist explained that Governor Shapiro has the following concerns regarding the Company's proposed rate increase:

- **Capital Structure**: concerned that the proposed capital structure is not cost-effective.
- **Transparent Rationale**: the necessity and cost-effectiveness of the proposed investments and rate increase are not adequately explained.
- **Transparent Return on Equity Determination**: 10.85% is too high for the "low-risk nature of monopoly electric distribution service.[821]

However, Mr. Szybist did not explain his position on the Company's capital structure, other than to say that the Company's capital structure "does not meet the Governor's precept that utilities should seek to raise capital in the most cost-effective form available."[822] As for transparency on the proposed investments and rate increase, Mr. Szybist failed to acknowledge the substantial record developed in this proceeding and the lack of any party's challenge to the investments reflected in rate base.[823] Mr. Szybist's claim that the Company's proposed ROE is "incommensurate with the relatively low-risk nature of monopoly electric distribution service" should be rejected as well, as he did not present any market analysis or analysis of UGI Electric's specific operations in providing his comments.[824] Even still, Mr. Szybist acknowledged that the Company has "persistently reported low equity returns,"[825] which, as explained previously, provides justification for the Company's proposed revenue increase.

UGI Electric witnesses Rogers and D'Ascendis specifically addressed the concerns raised by Governor Shapiro in his April 2026 letter to utility leaders and explained why they should have no bearing on the issues to be decided in this case.[826] Also, Ms. Rogers directly rebutted Mr.

[821] Tr. 116-18; OCA St. 7, p. 9.
[822] Tr. 116-17.
[823] *See* Section IV.A, *supra*.
[824] Tr. 118.
[825] Tr. 118.
[826] UGI Electric St. No. 1-R, pp. 32-33; UGI Electric St. No. 8-R, p. 18.

Szybist's position the Company has not included a plain language explanation or a cost effectiveness analysis for its investments, noting: (1) the plain language statement of reasons submitted as part of the Company's filing; (2) the complete investigation parties have performed into the reasonableness and prudency of the Company's investments; and (3) how the Company's investments cannot and should not be reduced to a strict cost-effectiveness analysis due to UGI Electric's statutory obligation to provide adequate, efficient, safe, reliable, and reasonable service to customers, its employees, and the public.[827]

As such, UGI Electric submits that the concerns raised at the public input hearings have been fully addressed as part of this proceeding and do not justify any adjustments to the Company's proposed revenue requirement.

[827] UGI Electric St. No. 1-R, pp. 32-33.

XIII. <u>CONCLUSION</u>

For these reasons, UGI Electric's claims in support of its proposed base rate revenue increase of $16.05 million are fully supported by the record, and the other parties' arguments in opposition are flawed and should be rejected. Moreover, as will be further explained in the Company's Statement in Support, the non-unanimous settlement reached by UGI Electric and OSBA, under which the Company's revenue increase would be reduced to $10.7 million, represents a fair and reasonable compromise and is completely justified based on the record evidence in this proceeding.

Respectfully submitted,

Michael S. Swerling (ID # 94748)
UGI Corporation
500 North Gulph Road
King of Prussia, PA 19406
Phone: 610-992-3203
E-mail: swerlingm@ugicorp.com

Candis A. Tunilo (ID # 89891)
UGI Corporation
1 UGI Drive
Denver, PA 17517
E-mail: tuniloc@oneugi.com

Devin T. Ryan (ID # 316602)
Emily S. Grecu (ID # 337777)
Post & Schell, P.C.
One Oxford Centre
301 Grant Street, Suite 3010
Pittsburgh, PA 15219
Phone: 717-612-6052
Fax: 717-731-1985
E-mail: dryan@postschell.com
E-mail: egrecu@postschell.com

David B. MacGregor (ID # 28804)
Garrett P. Lent (ID # 321566)
Lindsay A. Berkstresser (ID # 318370)
Post & Schell, P.C.
17 North Second Street, 12th Floor
Harrisburg, PA 17101
Phone: 717-731-1970
E-mail: dmacgregor@postschell.com
E-mail: lberkstresser@postschell.com

Dated: September 8, 2026

Counsel for UGI Utilities, Inc. – Electric Division

PUBLIC VERSION

APPENDIX A

Summary Tables of Position and Adjustments

TABLE I
UGI Utilities, Inc. - Electric Division
INCOME SUMMARY
R-2025-3059430

	Pro Forma Present Rates $ (1)	Company Adjustments $ (2)	Pro Forma Present Rates $ (3) = (1) + (2)	ALJ Adjustments $ (4)	ALJ Pro Forma Present Rates $ (5) = (3) + (4)	ALJ Revenue Increase $ (6)	Total Allowable Revenues $ (7) = (5) + (6)
Operating Revenue	145,390	69	145,459	0	145,459	16,030	161,489
Expenses:							
O & M Expense	115,109	(1,059)	114,050	0	114,050	347	114,397
Depreciation	11,948	0	11,948	0	11,948	0	11,948
Taxes, Other	9,841	(34)	9,807	0	9,807	0	9,807
Income Taxes:							
State	116	84	200	0	200	1,175	1,375
Federal	180	217	397	1	398	3,047	3,445
Total Expenses	137,194	(792)	136,402	1	136,403	4,569	140,972
Return	8,196	861	9,057	(1)	9,056	10,727	19,783
Rate Base	239,228	(141)	239,087	0	239,087		239,087
Rate of Return	3.43%		3.79%				8.27427500%

(1) As filed
(3) Company Main Brief

TABLE I(A)
UGI Utilities, Inc. - Electric Division
RATE OF RETURN
R-2025-3059430

	Structure	Cost	After-Tax Weighted Cost	Effective Tax Rate Complement	Pre-Tax Weighted Cost Rate
	(1)	(2)	[(3) = (1) x (2)]	(4)	[(5) = (3) x (4)]
Total Cost of Debt			2.38815000%		
Long-term Debt	45.75%	5.22%	2.38815000%		2.39%
Short-term Debt	0.00%	0.00%	0.00000000%		
Preferred Stock	0.00%	0.00%	0.00000000%	0.730829	0.00%
Common Equity	54.25%	10.85%	5.88612500%	0.730829	8.05%
	100.00%		8.27427500%		10.44%
Pre-Tax Interest Coverage	4.37				
After-Tax Interest Coverage	3.46				

TABLE I(B)
UGI Utilities, Inc. - Electric Division
REVENUE FACTOR
R-2025-3059430

100%	1.00000000
Less:	
Uncollectible Accounts Factor (*)	0.02167000
PUC, OCA, OSBA Assessment Factors (*)	0.00000000
Gross Receipts Tax	0.06270000
Other Tax Factors	0.00000000
	0.91563000
State Income Tax Rate (*)	0.07490000
Effective State Income Tax Rate	0.06858069
Factor After Local and State Taxes	0.84704931
Federal Income Tax Rate (*)	0.21000000
Effective Federal Income Tax Rate	0.17788036
Revenue Factor (100% - Effective Tax Rates)	0.66916895

(*) Company Main Brief

TABLE II
UGI Utilities, Inc. - Electric Division
SUMMARY OF ADJUSTMENTS
R-2025-3059430

Adjustments	Rate Base	Revenues	Expenses	Depreciation	Taxes-Other	State Income Tax	Federal Income Tax
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	$	$	$	$	$	$	$
RATE BASE:							
CWC:							
Int. & Div. (Table IV)	(IV!C39)						
Taxes (Table V)	(V!P34)						
O & M (Table VI)	(VI!B42)						
REVENUES:		0					
						0	0
EXPENSES:							
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
						0	0
TAXES:							
Interest Synchronization						0	1
(Table III)							
TOTALS	0	0	0	0	0	0	1

TABLE III
UGI Utilities, Inc. - Electric Division
INTEREST SYNCHRONIZATION
R-2025-3059430

(1)	Amount $ (2)
Company Rate Base Claim	239,087
ALJ Rate Base Adjustments (Table II)	0
ALJ Rate Base (Line 1 - Line 2)	239,087
Weighted Cost of Debt (Table IA)	2.38815000%
ALJ Interest Expense (Line 3 x Line 4)	5,710
Company Claim **(1)**	5,714
Total ALJ Adjustment (Line 6 - Line 5)	4
Company Adjustment **(1)**	0
Net ALJ Interest Adjustment (Line 7 - Line 8)	4
State Income Tax Rate (Table IB)	7.49%
State Income Tax Adjustment (Line 9 x Line 10) (Flow to Table II)	0
Net ALJ Interest Adjustment (Line 9)	4
State Income Tax Adjustment (Line 11)	0
Net ALJ Adjustment for F.I.T. (Line 12 - Line 13)	4
Federal Income Tax Rate	21.00%
Federal Income Tax Adjustment (Line 14 x Line 15)	1

(1) Company Main Brief

TABLE IV
UGI Utilities, Inc. - Electric Division
CASH WORKING CAPITAL - Interest and Dividends
R-2025-3059430

	Accrued Interest			Preferred Stock Dividends	
		Long-Term Debt	Short-Term Debt		
	(1)	(2)	(3)	(4)	(5)
1.	Company Rate Base Claim	$239,087	$239,087	Company Rate Base Claim	$239,087
2.	ALJ Rate Base Adjustments	$0	$0	ALJ Rate Base Adjustments	$0
3.	ALJ Rate Base	$239,087	$239,087	ALJ Rate Base	$239,087
4.	Weighted Cost of Debt	2.38815000%	0.00%	Weighted Cost Pref. Stock	0.00000000%
5.	ALJ Annual Interest Exp.	$5,710	$0	ALJ Preferred Dividends	$0
6.	Average Revenue Lag Days	64.2	64.2	Average Revenue Lag Days	64.2
7.	Average Expense Lag Days	91.3	0.0	Average Expense Lag Days	0.0
8.	Net Lag Days	-27.1	64.2	Net Lag Days	64.2
9.	Working Capital Adjustment				
10.	ALJ Daily Interest Exp.	$16	$0	ALJ Daily Dividends	$0
11.	Net Lag Days	-27.1	64.2	Net Lag Days	64.2
12.	ALJ Working Capital	($434)	$0		$0
13.	Company Claim (1)	($424)	$0	Company Claim (1)	$0
14.	ALJ Adjustment	($10)	$0		$0
15.	Total Interest & Dividend Adj.	($10)			

(1) Company Main Brief.

TABLE V
UGI Utilities, Inc. - Electric Division
CASH WORKING CAPITAL -TAXES
R-2025-3059430

Description	Company Proforma Tax Expense Present Rates	ALJ Adjustments	ALJ Pro forma Tax Expense Present Rates	ALJ Allowance	ALJ Adjusted Taxes at Present Rates	Daily Expense	Net Lead/ Lag Days	Accrued Tax Adjustment
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
PUC Assessment	$701	$0	$701	$0	$701	$1.92	-181.00	($348)
Public Utility Realty	$108	$0	$108		$108	$0.30	-30.00	($9)
Capital Stock Tax	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
	$0	$0	$0		$0	$0.00	0.00	$0
State Income Tax	$200	$0	$200	$1,175	$1,375	$3.77	-118.00	($445)
Federal Income Tax	$397	$1	$398	$3,047	$3,445	$9.44	-149.00	($1,407)
	$1,406	$1	$1,407	$4,222	$5,629			

ALJ Allowance	(2,209)
Company Claim (1)	371
ALJ Adjustment	(2,580)

(1) Company Main Brief

TABLE VI
UGI Utilities, Inc. - Electric Division
CASH WORKING CAPITAL -- O & M EXPENSE
R-2025-3059430

Description	Company Pro forma F.T.Y. Expense	ALJ	ALJ Pro forma Expenses	Lag Days	Lag Dollars
(1)	(2)	(3)	(4)	(5)	(6)
Service Company	$0	$0	$0	0.00	$0
Chemicals	$0	$0	$0	0.00	$0
Group Insurance	$0	$0	$0	0.00	$0
Insurance, Other	$0	$0	$0	0.00	$0
Labor	$7,158	$0	$7,158	12.00	$85,896
Leased Equip./Rent	$0	$0	$0	0.00	$0
Leased Vehicles	$0	$0	$0	0.00	$0
Miscellaneous	$29,718	$0	$29,718	20.57	$611,299
Natural Gas	$0	$0	$0	0.00	$0
Power	$74,037	$0	$74,037	34.81	$2,577,228
Purchased Water	$0	$0	$0	0.00	$0
Telephone	$0	$0	$0	0.00	$0
Waste Disposal	$0	$0	$0	0.00	$0
Post Retirement Benefits	$0	$0	$0	0.00	$0
Pensions	$0	$0	$0	0.00	$0
	$110,913	$0	$110,913	29.50	$3,274,423

ALJ Average Revenue Lag	64.2	
Less: ALJ Avg. Expense Lag	29.5	
Net Difference	34.7	Days
ALJ Pro forma O & M Expense per Day	$304	
ALJ CWC for O & M	$10,534	
Less: Company Claim (1)	$10,526	
ALJ Adjustment	$8	

(1) Company Main Brief

APPENDIX B

List of Acronyms and Initialisms

Acronym	Definition
ACOSS	Allocated Cost of Service Study
ADIT	Accumulated Deferred Income Taxes
ALJ	Administrative Law Judge
ALJs	Administrative Law Judges
ALG	Average Life Group
ASL	Average Service Life
CAIDI	Customer Average Interruption Duration Index
CAP	Customer Assistance Program
CAPM	Capital Asset Pricing Model
CARES	Customer Assistance Referral and Evaluation Services
CBO	Community-Based Organization
CDD	Cooling Degree Days
CEO	Commission on Economic Opportunity
COMPASS	Commonwealth of Pennsylvania Access to Social Services System
CWC	Cash Working Capital
DCF	Discounted Cash Flow
DHS	Department of Human Services
DPA	Deferred Payment Arrangement
DPS	Dividends Per Share
DSIC	Distribution System Improvement Charge
EAP	Energy Association of Pennsylvania
ECAPM	Empirical Capital Asset Pricing Model
EDC	Electric Distribution Company
EEI	Edison Electric Institute
EGS	Electric Generation Supplier
ELG	Equal Life Group
EMH	Efficient Market Hypothesis
EPS	Earnings Per Share
FCP	Flood Control Power
FERC	Federal Energy Regulatory Commission
FPFTY	Fully Projected Future Test Year
FPIG	Federal Poverty Income Guidelines
FPL	Federal Poverty Level
FTY	Future Test Year
GDP	Gross Domestic Product
GS	General Service
HDD	Heating Degree Days
HTP	High Tension Power
I&D	Injuries and Damages
I&E	Bureau of Investigation and Enforcement
IT	Information Technology
kVA	Kilovolt-Ampere
LIHEAP	Low Income Home Energy Assistance Program
LIURP	Low Income Usage Reduction Program

LP	Large Power
LTIIP	Long-Term Infrastructure Improvement Plan
MRP	Market Risk Premium
MSS	Minimum System Study
NARUC	National Association of Regulatory Utility Commissioners
O&M	Operations and Maintenance
OCA	Office of Consumer Advocate
OSBA	Office of Small Business Advocate
PAWC	Pennsylvania-American Water Company
PIPP	Percent of Income Payment Plan
PTC	Price to Compare
PUC	Pennsylvania Public Utility Commission
R	Residential Rate Schedule
ROE	Return on Equity
RPM	Risk Premium Model
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SML	Security Market Line
S&P	Standard & Poor's
SSN	Social Security Number
TOTI	Taxes Other Than Income Taxes