UGI UTILITIES, INC – GAS DIVISION

**A REPORT ON THE STATEMENTS OF**

**LOW INCOME SELF HELP PROGRAM OVER/(UNDER) COLLECTIONS**

**FOR THE TWELVE MONTH PERIODS ENDED**

**SEPTEMBER 30, 2012 AND SEPTEMBER 30, 2011**

**Prepared By The**

**Pennsylvania Public Utility Commission**

**Bureau of Audits**

**Report Date: February 11, 2015**

**Docket D-2014-2407515**

# UGI UTILITIES, INC - GAS DIVISION

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#### FINANCIAL REVIEW

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| PUC logo | COMMONWEALTH OF PENNSYLVANIA  PENNSYLVANIA PUBLIC UTILITY COMMISSION  P.O. BOX 3265, HARRISBURG, PA 17105-3265 | **IN REPLY PLEASE REFER TO OUR FILE** |

# INDEPENDENT AUDITOR'S REPORT

# To The Pennsylvania Public Utility Commission

We have audited UGI Utilities, Inc. - Gas Division’s Statements of Low Income Self Help Program Over/Under Collections for the twelve month periods ended September 30, 2012 and September 30, 2011. These statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the specified statements are free of material misstatement. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statements referred to above. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Statements of Low Income Self Help Program Over/Under Collections were prepared for the purpose of complying with the rules and regulations of the Pennsylvania Public Utility Commission and is not intended to be a complete presentation of the Company's revenues and expenses.

In our opinion, the information set forth in the accompanying condensed Statements of Low Income Self Help Program Over/Under Collections for the twelve month periods ended September 30, 2012 and September 30, 2011 of UGI Utilities, Inc. - Gas Division present fairly, in all material respects, in relation to the audited financial statements from which they were derived.

Dennis P. Hosler, CPA

Director

Bureau of Audits

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| **UGI UTILITIES, INC - GAS DIVISION** |
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| **Condensed (Note 1)** |
| **Statement Of Low Income Self Help Program (LISHP)**  **Over/(Under) Collections (Section 1307(e))**  **For The Twelve Months Ended September 30, 2012\*** |
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|  |  |  |  |
| --- | --- | --- | --- |
| **Month** | **LISHP Revenues** | **LISHP Expenses** | **Over/(Under) Collections** |
|  | (1) | (2) | (3)=(1)-(2) |
|  | (Note 2) | (Note 3) | (Note 4) |
|  |  |  |  |
| October 2011 | $ 45,972 | $ (15,216) | $ 61,188 |
| November | 120,078 | 186,242 | (66,164) |
| December | 140,083 | 283,424 | (143,341) |
| January 2012 | 159,240 | 353,145 | (193,905) |
| February | 149,039 | 312,227 | (163,188) |
| March | 94,559 | 197,868 | (103,309) |
| April | 45,916 | 63,827 | (17,911) |
| May | 29,692 | 55,470 | (25,778) |
| June | 16,008 | (37,141) | 53,149 |
| July | 13,545 | (33,953) | 47,498 |
| August | 11,878 | (52,636) | 64,514 |
| September | 13,536 | (21,558) | 35,094 |
| Totals | $ 839,546 | $ 1,291,699 | $ (452,153) |

\* - As reported to the Commission at Docket No. M-2012-2332717.

Notes to the Financial Statements are an integral part of this report.

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| **UGI UTILITIES, INC - GAS DIVISION** |
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| **Condensed (Note 1)** |
| **Statement Of Low Income Self Help Program (LISHP)** |
| **Over/(Under) Collections (Section 1307(e))** |
| **For The Twelve Months Ended September 30, 2011\*** |

|  |  |  |  |
| --- | --- | --- | --- |
| **Month** | **LISHP Revenues** | **LISHP Expenses** | **Over/(Under) Collections** |
|  | (1) | (2) | (3)=(1)-(2) |
|  | (Note 2) | (Note 3) | (Note 4) |
|  |  |  |  |
| October 2010 | $ 26,433 | $ 46,445 | $ (20,012) |
| November | 67,281 | 168,092 | (100,811) |
| December | 191,834 | 354,009 | (162,175) |
| January 2011 | 308,857 | 578,226 | (269,369) |
| February | 277,610 | 534,924 | (257,314) |
| March | 221,595 | 357,559 | (135,964) |
| April | 147,860 | 296,654 | (148,794) |
| May | 61,636 | 9,992 | 51,644 |
| June | 35,827 | (163,834) | 199,661 |
| July | 31,035 | (53,798) | 84,833 |
| August | 27,645 | (170,858) | 198,503 |
| September | 31,448 | (105,945) | 137,393 |
| Totals | $ 1,429,060 | $ 1,851,465 | $ (422,405) |

\* - As reported to the Commission at Docket No. M-2011-2271390.

Arithmetic differences are due to rounding.

Notes to the Financial Statements are an integral part of this report.

**UGI UTILITIES, INC - GAS DIVISION**

# Notes To The Financial Statements

**1 - Condensed Statements**

The Statements of Low Income Self Help Program (LISHP) Over/(Under) Collections presented in this report are condensed from the officially filed statements for the purpose of clarity. The audit was conducted on UGI Utilities, Inc. - Gas Division’s (UGI-Gas or Company) officially filed 1307(e) statements submitted to the Pennsylvania Public Utility Commission (PUC or Commission), in accordance with Section 1307(e)(1) of the Public Utility Code on October 29, 2012 and November 1, 2011, and are available at Docket Nos. M-2012-2332717 and M-2011-2271390, respectively, via <http://www.puc.pa.gov>.

**2 - LISHP Revenues**

LISHP Revenues are derived by multiplying the sales volumes billed during the month by the applicable LISHP rate, excluding the E‑Factor. The LISHP rate is applicable to all Residential Customers except customers in the LISHP.

**3 - LISHP Expenses**

LISHP Expenses are the allowable costs to provide assistance to those customers who are payment troubled. These allowable costs include: the LISHP Shortfall expense (the difference between the total residential sales service rate and the LISHP rate based upon the current discounts at normalized annual volumes of the then current LISHP participants) in excess of $752 for the first 4,000 participants; and one-half of the LISHP Shortfall for LISHP participants in excess of 4,000; and outside agency LISHP costs.

**4 - Over/(Under) Collections**

The Over/(Under) Collections are the differences between the LISHP Revenues and the LISHP Expenses. The resulting amounts represent the portion of LISHP Revenues refundable to or LISHP Expenses recoverable from customers through subsequent LISHP filings. As of May 8, 2011, interest is applied to both over and under collections. Differences between revenues and expenditures arise for two primary reasons:

* Variations between the actual volumes billed to customers and estimated volumes used to determine the LISHP rate.
* Variations between the actual LISHP expenses incurred and the projected expenses used to determine the LISHP rate.

#### BACKGROUND

**AND**

**OPERATIONAL REVIEW**

**UGI UTILITIES, INC - GAS DIVISION**

**Background**

This background section was developed substantially from unaudited data and documentation made available by UGI-Gas and is presented solely for informational purposes.

UGI-Gas is a division of UGI Utilities, Inc., which is a company principally engaged in providing transmission and distribution of electric and natural gas services. UGI Utilities, Inc.’s operations as an electric distribution company and natural gas distribution company are subject to regulation by the PUC. UGI Utilities, Inc. headquartered in Reading, Pennsylvania, is a wholly owned subsidiary of UGI Corporation headquartered in Valley Forge, Pennsylvania. According to UGI-Gas’ annual reports filed with the PUC, for the years 2012 and 2011, UGI-Gas’ total sales and transportation revenues from residential, commercial and industrial customers were approximately $365,140,011 and $441,955,380, respectively.

UGI-Gas provides gas service to approximately 350,000 customers located throughout counties in eastern and central Pennsylvania. UGI-Gas owns a distribution system consisting of approximately 5,300 miles of gas mains.

UGI-Gas’ LISHP funding mechanism was originally approved through the Universal Service Restructuring Settlement, at Docket No. R-00994786. On December 4, 2008, at Docket No. P‑2008-2066708, the Commission approved UGI-Gas’ Petition to expand participation in its LISHP from 8,000 to 10,000 customers. On October 31, 2011, at Docket No. M-2010-2186052, the Commission approved the following changes to UGI Gas’ LISHP: change the maximum shortfall amount for each participant to $950 for heating and $560 for non-heating; remove the limitation on commodity charges being reduced by no more than the current Purchased Gas Cost rate for residential gas customers; effective January 2013, forgiving pre-program arrearage balances on a 1/36th basis upon receipt of each timely and in-full payment; and changing the minimum monthly payment to $25 for heating accounts and to $15 for non-heating accounts.

**UGI UTILITIES, INC - GAS DIVISION**

**Finding – The Cumulative Under Collection Balance Is Over Stated By $121,688.**

UGI-Gas included a cumulative under collection balance of $586,378 in the calculation for the LISHP Rate effective December 1, 2012. This balance was incorrect due to multiple mathematical computation errors. The correct cumulative under collection balance that should have been included in the LISHP Rate effective December 1, 2012 was $464,690, resulting in $121,688 being over collected from customers.

**Recommendation**

We recommend that UGI-Gas refund $121,688 to its customers in a subsequent LISHP Rate filing.

# Auditor’s Note

The Company agreed with the recommendation and made the correction in the calculation of the LISHP Rate effective December 1, 2014, at Docket No. R‑2014‑2420276.

**UGI UTILITIES, INC - GAS DIVISION**

**Observation – The UGI-Gas LISHP Rider Language Is Outdated.**

In 2010, the Department of Public Welfare (DPW), administrator of the Low Income Home Energy Assistance Program (LIHEAP), dictated that LIHEAP cash grants can only be applied to a customer’s “Asked to Pay” amount. Beginning with the LISHP Rate effective December 1, 2010, UGI-Gas did not include a variable for LIHEAP Cash Grants in the LISHP rate calculation. While the Company complied with DPW by updating its LISHP rate calculation, UGI-Gas failed to update the LISHP Rider language that explains how the LISHP rate is calculated.

**Auditor’s Note**

The Bureau of Audits consulted with the Bureau of Consumer Services (BCS) who was in the process of reviewing the Company’s Universal Service and Energy Conservation Plan (Plan) for the period January 1, 2014 through December 31, 2016. As a result, in the October 2, 2014 Tentative Order approving the Plan, at Docket No. M-2013-2371824, the Commission requested that UGI update its tariff language to reflect its current practices, consistent with DPW’s current LIHEAP policy. In its reply, UGI-Gas agreed to file a revised LISHP Rider. In its January 15, 2015 Final Order, the Commission directed that within 90 days of the entry date of the Final Order that UGI-Gas update the LISHP Rider language to reflect its current practices, consistent with DPW’s current LIHEAP policy.

# ACKNOWLEDGEMENTS

We wish to express our appreciation to the officers and staff of UGI Utilities, Inc.‑ Gas Division for the cooperation and assistance given to us during the course of our examination. The audit was conducted by Kenneth W. Raffensperger, assisted by Keith L. Mather.