COMMONWEALTH OF PENNSYLVANIA

June 30, 2017

E-FILED

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Re: Pennsylvania Public Utility Commission v. UGI Penn Natural Gas, Inc.
Docket No. R-2016-2580030

Dear Secretary Chiavetta:

I am delivering for filing today the Statement in Support of the Joint Petition for Approval of Settlement of All Issues, on behalf of the Office of Small Business Advocate ("OSBA"), in the above-captioned proceeding.

Copies will be served on all known parties in this proceeding, as indicated on the attached Certificate of Service.

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

Sincerely,

Steven C. Gray
Assistant Small Business Advocate
Attorney ID No. 77538

Enclosures
cc: The Honorable Mary D. Long
Mr. Robert D. Knecht
Parties of Record

Office of Small Business Advocate
300 North Second Street, Suite 202 | Harrisburg, PA 17101 | 717.783.2525 | Fax 717.783.2831 | osba.pa.gov

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	**Docket No. R-2016-2580030**
	:	
UGI Penn Natural Gas, Inc.	:	

STATEMENT OF
THE OFFICE OF SMALL BUSINESS ADVOCATE
IN SUPPORT OF THE
<u>JOINT PETITION FOR APPROVAL OF SETTLEMENT OF ALL ISSUES</u>

<u>Introduction</u>

The Small Business Advocate is authorized and directed to represent the interests of the small business consumers of utility services in the Commonwealth of Pennsylvania under the provisions of the Small Business Advocate Act, Act 181 of 1988, 73 P.S. §§ 399.41 - 399.50. Pursuant to that statutory authority, the Office of Small Business Advocate ("OSBA") filed a complaint against Tariff Gas – Pa. P.U.C. Nos. 9 and 9-S, submitted by UGI Penn Natural Gas, Inc. ("UGI PNG" or the "Company") to the Pennsylvania Public Utility Commission ("Commission") on January 19, 2017.

The OSBA actively participated in the negotiations that led to the proposed settlement and is a signatory to the Joint Petition for Approval of Settlement of All Issues ("*Joint Petition*"). The OSBA submits this statement in support of the *Joint Petition*.

The *Joint Petition*

The *Joint Petition* sets forth a comprehensive list of issues that were resolved through the negotiation process. The following issues were of particular significance to the OSBA when it concluded that the *Joint Petition* was in the best interests of UGI PNG's small business customers.

Annual Distribution Rate Increase: The Company original requested an annual distribution rate increase of approximately $21.7 million. The *Joint Petition* proposes an increase of $11.25 million. *Joint Petition*, at Paragraph 17.

However, the *Joint Petition* also proposes that this settlement be of the "black box" type. *Joint Petition*, at Paragraph 17. Thus, care must be taken when a party explains its support for that final dollar amount.

In his Direct Testimony, OSBA witness Robert D. Knecht provided extensive testimony addressing the Company's requested return on equity ("ROE"). *See* OSBA Statement No. 1, at 25-35. UGI PNG originally requested an ROE of 11.5 percent. Mr. Knecht testified that, based upon independent and respected sources for utility cost of capital estimates and the ROE awards granted in other regulatory jurisdictions, the Company should be awarded no more than an ROE of 9.5 percent.

The OSBA supports the *Joint Petition's* revenue increase of $11.25 million because, according to the OSBA's internal analysis during settlement discussions, Mr. Knecht's recommended ROE (if successfully litigated) would reduce the Company's original distribution rate increase request by nearly half. Thus, the $11.25 million settled distribution rate increase is easily within the OSBA's "range of reasonableness" for outcomes in this proceeding.

FPFTY Ratemaking: The Commission has not yet promulgated rules with respect to how costs should be determined in a fully projected future test year ("FPFTY") environment, notably with respect to whether "annualization" calculations are necessary, how FPFTY rate base should be determined, and how the base level of capital expenditures should be established for DSIC purposes. Mr. Knecht explained why annualization is no longer necessary, why average FPFTY rate base was appropriate, and offered certain recommendations regarding the base levels for the DSIC. However, because the Commission has not clarified this issue, the *Joint Petition* essentially adopts a continuation of the status quo, at least with respect to resetting the DSIC. *See Joint Petition*, at Paragraph 25. The OSBA respectfully submits that Commission resolution of these issues would serve regulatory economy, and reduce debate in base rates proceedings.

Interruptible Service Revenue: A contentious issue in this case was the amount of revenue from Rate IS Interruptible Service customers that should be included in present rates. Mr. Knecht testified that the present rates interruptible revenue should be based on a reasonable forecast for those revenues, rather than the cost-based proposal advanced by the Company. *See* OSBA Statement No. 1, at 47.

The *Joint Petition* proposes the issue be resolved consist with Mr. Knecht's testimony. Specifically, the Company's budget forecast for interruptible revenue will be included in present rates revenue. Thus, the OSBA supports the *Joint Petition's* resolution of this issue.

Capital Expenditure Forecast: In proposing a revenue requirement in this proceeding, the Company assumes a significant acceleration of capital spending in both the current year (aka the future test year) and the fully projected future test year. The OSBA recognizes that NGDCs must make significant investments in their distribution systems in order to replace obsolescent and unsafe assets. However, the OSBA is very concerned about the approach used by the

Company, which resulted in very modest investments in the years immediately following the last base rates case (during the depths of the Great Recession) and a huge acceleration of spending just in time for the current base rates filing (and the recent runup in mains replacement costs). *See* OSBA Statement No. 1, Table IEc-5, at 21. The OSBA believes that a more stable plan for capital spending would better serve both ratepayers and utility shareholders.

Nevertheless, the OSBA deemed that it was unlikely to prevail on this issue in litigation due to a lack of any similar testimony from other parties, and the *Joint Petition* accepts the Company's capital spending forecast in Paragraph 25 for the purpose of setting the DSIC base level. It is the OSBA's view that the overall approved revenue requirement in the *Joint Petition* reflects, to a modest extent, the OSBA's concerns in this respect.

Other Revenue Requirement Issues: Mr. Knecht also expressed concerns regarding a number of other aspects of the Company's revenue requirement proposals.

First, he flagged a statistical model specification error, which caused the Company to understate the significance of trend declines in gas usage. This finding served to buttress the Company's assertion that use per customer was declining, although the Company was surprisingly unsupportive of that finding in its rebuttal testimony.

Second, Mr. Knecht also expressed the view that a variety of other O&M and A&G cost items were overstated, including injuries/damages, labor related to the UNITE project, incentive compensation, rate case expense, office relocation, and advertising. *See* OSBA Statement No. 1, at 16-18.

It is OSBA's view that these conclusions, and the Company's rebuttal response, are reasonably reflected in the *Joint Petition's* overall revenue requirement.

Cost and Revenue Allocation: On the key issue of mains cost allocation, Mr. Knecht supported the Company's filed cost of service study ("COSS") approach, albeit for reasons of Commission precedent rather than strict cost causation principles. With respect to other cost allocation issues, Mr. Knecht identified an error in the Company's development of the design day allocator for R/RT and N/NT customer and he identified methodological problems with the Company's allocation of services. Mr. Knecht also developed an alternative and more reasonable method for allocating meters costs, and he recommended an alternative method for the allocation of legacy manufactured gas plant costs. *See* OSBA Statement No. 1, at 37-54. As a result of these findings, Mr. Knecht developed an alternative to the Company's cost allocation study.

Based upon this analysis, Mr. Knecht ultimately recommended, as follows:

> [R]ecognizing that rates for XD and IS customers are negotiated, I adopt a rate gradualism principle that no class be assigned a rate decrease in this proceeding. The largest customers in the Rate XD class are also subject to negotiated rates, but these rates produce revenues well in excess of cost. There is therefore no reason to assign any of the rate increase to this class. However, because these are negotiated rates that are acceptable to these customers, there is also no reason to assign a rate decrease to this class. (In my experience, the Commission is reluctant to assign rate decreases to individual rate classes except in extraordinary circumstances, particularly when the utility is seeking a large overall rate increase as in the current proceeding.) Rates paid by the IS class are similarly negotiated, and there is therefore no reason to further reduce those rates either.
>
> For the other classes, I propose that the revenue allocation significantly reduce the dollar value of the cross-subsidies. This standard implies that an above average increase be applied to the R/RT class, an increase slightly above average should be applied to N/NT and DS classes, and a below average increase should apply to Rate LFD.

OSBA Statement No. 1, at 56-57.

In addition to OSBA and the Company, the OCA also submitted a revenue allocation proposal. The *Joint Petition* proposes to allocate the revenue among the customer classes in a manner that reflects a compromise among the various proposals. The table below shows the revenue allocation proposals, measured as each class' share of the increase, to the *Joint Petition*. *See Joint Petition*, at Paragraph 27.

Revenue Allocation Comparison Percent of Revenue Increase				
	PNG	OCA	OSBA	*Joint Petition*
R/RT	69.3%	60.4%	74.8%	69.7%
N/NT	22.0%	13.4%	17.0%	20.4%
DS	7.5%	4.8%	6.2%	7.5%
LFD	1.9%	4.2%	2.0%	3.7%
XD	-0.6%	17.2%	0.0%	-1.2%
IS	-0.1%	0.0%	0.0%	-0.2%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Regarding this comparison, a couple of observations are in order. First, the Company's XD and IS rates are generally negotiated rates, and the Company's proposed rate decreases reflected elimination of the DSIC and STAS charges. With the scaleback of the rate increase, these rate decreases remained the same, but became larger as a percentage of the increase. In effect, the Company's proposal for these classes was accepted.

Also, the OCA's proposal for small business customers in the Rate N/NT class was more favorable to those customers than was the OSBA's proposal. However, the OCA proposal was based on the very unlikely result that the Commission would assign a massive rate increase to Rate XD customers, despite the fact that PNG generally could not increase rates to those customers. Thus, the OSBA deemed that the OCA proposal had a relatively low probability of prevailing in litigation. Thus, for Rate N/NT customers, the OSBA concludes that the revenue allocation in the *Joint Petition* lies within the reasonable range between the Company and OSBA revenue allocation proposals. Therefore, the OSBA supports the *Joint Petition's* reasonable resolution of this issue.

Rate Design: Mr. Knecht also testified in response to the Company's originally proposed rate design. *See* OSBA Statement No. 1, at 58-61. Simply put, Mr. Knecht objected to the Company's proposed customer charge increase for N/NT (on the basis of allocated customer costs) and DS (on the basis of rate gradualism) customers.

The *Joint Petition* proposes customer charges that are much more in line with those advocated by Mr. Knecht in his testimony. *See Joint Petition*, at Paragraph 28.

Therefore, the OSBA supports the *Joint Petition's* proposed customer charges.

EE&C Plan: In this proceeding, PNG essentially proposes to adopt an EE&C plan with the same provisions as those adopted by the parties in the recent settlement of the UGI Gas base rates proceeding in 2016. With respect to these policies, the OSBA has a long-standing concern that non-benefiting ratepayers are being asked to provide excessive subsidies to the program beneficiaries. *See* OSBA Statement No. 1 at 65. To that end, the settlement of the UGI Gas case specified a maximum limit for utility subsidies as a percent of program costs for the programs that affect small business customers.

In this proceeding, Mr. Knecht identified certain inconsistencies in the Company's calculations. *See* OSBA Statement No. 1, at 69-70. These inconsistencies required certain clarifications to the calculations, which are reflected in *Joint Petition* Paragraphs 32 and 33. While the OSBA would prefer that the beneficiaries of these programs pay their own way, the OSBA concludes that the *Joint Petition* represents a reasonable balancing of interests.

Capacity Assignment: In this proceeding, the Company proposed a mandatory assignment mechanism for asset-based firm upstream capacity for its Rate DS customers, and a voluntary capacity assignment mechanism for Rate LFD customers. Mr. Knecht expressed concerns that (a) this proposal was not vetted with either customers or NGSs, and (b) that the use of a weighted average cost of capacity and a voluntary mechanism for Rate LFD could both have negative impacts on PGC customers. Paragraph 51 of the *Joint Petition* adopts the Company's proposal, but explicitly recognizes that issues related to this program may be addressed in future Section 1307(f) proceedings. In effect, should Mr. Knecht's concerns come to pass, parties will at least be able to prospectively address the problem in future annual PGC proceedings. As such, the OSBA concludes that this is a reasonable resolution of this issue.

Conclusion

For the reasons set forth in the *Joint Petition*, as well as the additional factors that are enumerated in this statement, the OSBA supports the proposed *Joint Petition* and respectfully requests that the ALJ and the Commission approve the *Joint Petition* in its entirety.

Respectfully submitted,

Steven C. Gray
Assistant Small Business Advocate
Attorney ID No. 77538

Office of Small Business Advocate
300 North Second Street, Suite 202
Harrisburg, PA 17101

Dated: June 30, 2017

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	**Docket No. R-2016-2580030**
	:	**C-2017-2589092**
UGI Penn Natural Gas, Inc.	:	

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing have been served via email and/or First-Class mail (*unless other noted below*) upon the following persons, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

The Honorable Mary D. Long
Administrative Law Judge
Piatt Place, 301 Fifth Avenue, Suite 220
Pittsburgh, PA 15222
malong@pa.gov

Phillip C. Kirchner, Esquire
Scott B. Granger, Esquire
Bureau of Investigation and Enforcement
PA Public Utility Commission
400 North St., Commonwealth Keystone Bldg.
Harrisburg, PA 17120
sgranger@pa.gov
phikirchne@pa.gov
(Email and Hand Delivery)

Christopher T. Wright, Esquire
Garrett P. Lent, Esquire
Post & Schell, P.C.
17 North Second Street, 12th Floor
Harrisburg, PA 17101-1601
cwright@postschell.com
glent@postschell.com

Paul J. Szykman, VP
UGI Utilities Inc.
2525 North 12th Street, Suite 360
Reading, PA 19612-2677
(First Class Mail Only)

Mark C. Morrow, Esquire
Danielle Jouenne, Esquire
Kent Murphy, Esquire
UGI Corporation
460 North Gulph Road
King of Prussia, PA 19406
morrowm@ugicorp.com
jouenned@ugicorp.com
murphyke@ugicorp.com

Harrison W. Breitman, Esquire
Candis A. Tunilo, Esquire
David T. Ervard, Esquire
Office of Consumer Advocate
555 Walnut Street, 5th Floor
Harrisburg, PA 17101
HBreitman@paoca.org
ctunilo@paoca.org
devrard@paoca.org
(Email and Hand Delivery)

Pamela C. Polacek, Esquire
McNees Wallace & Nurick
100 Pine Street
P.O. Box 1166
Harrisburg, PA 17108-1166
ppolacek@mcneeslaw.com

Joseph L. Vullo, Esquire
1460 Wyoming Avenue
Forty Fort, PA 18704
jlvullo@aol.com

Elizabeth R. Marx, Esquire
Patrick M. Cicero, Esquire
Joline Price, Esquire
Pennsylvania Utility Law Project
118 Locust Street
Harrisburg, PA 17101
pulp@palegalaid.net

David B. MacGregor, Esquire
Post & Schell, P.C.
Four Penn Center
1600 John F. Kennedy Boulevard
Philadelphia, PA 17103-2808
dmacgregor@postschell.com

Daniel Clearfield, Esquire
Karen O'Moury, Esquire
Sarah Stoner, Esquire
Eckert Seamans Cherin & Mellott LLC
213 Market Street, 8th Floor
Harrisburg, PA 17101
dclearfield@eckertseamans.com
kmoury@eckertseamans.com
sstoner@eckertseamans.com

Cpt. Carlos S. Ramirez-Vazquez, Esquire
Litigation and Training Office
Trial Counsel Assistance Program
9275 Gunston Road, Building 1450
Fort Belvoir, VA 22060
Carlos.s.ramirezvazquez.mil@mail.mil

Emily W. Medlyn
General Attorney
U.S. Army Legal Services Agency
Regulatory Law Office (JALS-RL/IP)
9275 Gunston Road
Fort Belvoir, Virginia 220-4446
Emily.w.medlyn.civ@mail.mil

DATE: June 30, 2017

Steven Gray
Assistant Small Business Advocate
Attorney I.D. No. 77538