

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	R-2018-3006814
Office of Consumer Advocate	:	C-2019-3007753
Office of Small Business Advocate	:	C-2019-3007756
Keith P. Dolon	:	C-2019-3007953
Gail L. Hoffer & Bernadette Margel	:	C-2019-3008002
James J. Knowlton	:	C-2019-3008606
Christopher Visco	:	C-2019-3008737
Ruth E. Neely	:	C-2019-3008833
Sam Galdieri	:	C-2019-3009325
Billie Sue Atkinson	:	C-2019-3009949
	:	
	:	
v.	:	
	:	
	:	
UGI Utilities, Inc. Gas Division	:	

**RECOMMENDED DECISION**

Before  
Christopher P. Pell  
Deputy Chief Administrative Law Judge

## TABLE OF CONTENTS

I.	INTRODUCTION .....	1
II.	HISTORY OF THE PROCEEDING .....	2
III.	FINDINGS OF FACT.....	8
IV.	PUBLIC INPUT HEARING.....	10
V.	DESCRIPTION OF THE SETTLEMENT .....	11
VI.	TERMS AND CONDITIONS OF THE SETTLEMENT .....	12
VII.	LEGAL STANDARD.....	26
VIII.	DISCUSSION OF THE SETTLEMENT .....	28
	A. Revenue Requirement.....	28
	1. In General.....	28
	2. Test Year Plant Reporting Obligation.....	32
	3. DSIC Eligible Plant Balances .....	34
	4. DSIC Calculation Return on Equity .....	35
	5. Energy Efficiency and Conservation .....	36
	B. Revenue Allocation and Rate Design .....	36
	1. In General.....	36
	2. Billing Determinants.....	37
	3. Revenue Allocation.....	38
	4. Uniform Distribution Rates and Riders .....	46
	5. Monthly Customer Charges .....	50
	a. Rate R/RT Charge.....	50
	b. Rate N/NT Charge .....	52
	c. Rate DS Customer Charge.....	53
	d. Rate LFD Customer Charge.....	54
	6. Interruptible Revenue.....	55
	7. GET Gas.....	58
	8. USP Rider .....	62
	9. Tax Cuts and Jobs Act .....	64
	10. PGC Revenue Adjustment .....	65
	11. ACH/Credit Card Fee Waiver.....	66
	C. Energy Efficiency and Conservation .....	67
	1. In General.....	67
	2. Evaluation Costs .....	69
	3. Program Budgets.....	70
	4. Recovery of LIURP through EE&C .....	71
	5. Assessment Fee for LIUPR Participants.....	72

D.	Universal Service and Other Low Income Issues .....	76
1.	In General.....	76
2.	Use of Community Based Organizations.....	78
3.	Distribution of Universal Services Funding .....	79
4.	Unspent Program Dollars.....	80
5.	Annual LIURP Funding Increase.....	80
6.	Emergency Furnace Repair Program .....	82
7.	Third Party Notification Program .....	83
8.	Forms of Income Verification for Cold Weather Protections.....	84
9.	Government Identification to Establish Service .....	85
10.	Security Deposit Waiver/Release of Previously Collected Security Deposits .....	85
11.	Quarterly CAP Rate Plan Review.....	87
12.	Budget Billing Enrollment.....	88
E.	Transportation .....	89
1.	In General.....	89
2.	Delivered Supply Service .....	91
3.	Non-Choice Daily Balancing.....	92
4.	Rate NNS .....	93
5.	Rate MBS.....	95
6.	Acceptable Substitute Delivery Points.....	96
7.	Capacity Assignments.....	99
8.	Non-Choice Excess Imbalances.....	102
9.	Supply Nomination Process.....	104
10.	Daily Metering Expansion .....	105
11.	Merger of Southeast and Southwest Regions .....	106
12.	Eligible Customer Delivery List .....	107
13.	Producer List.....	107
14.	Access to Storage.....	108
F.	Accounting.....	109
1.	In General.....	109
2.	Environmental Cost Recovery .....	110
	a. Normalized Allowance.....	110
	b. Amortization of Prior Balances .....	111
3.	ADIT/EDFIT.....	112
4.	Repairs Allowance.....	113
5.	Unite/Hypercare.....	113
6.	Accounting for Mechanical Tee Programs .....	114
7.	Depreciation Rates.....	115

G.	Safety .....	116
H.	Other Issues.....	118
1.	Interruptible Customer Competitive Analysis .....	118
I.	Recommendation .....	120
IX.	<u>Conclusions of Law</u> .....	122
X.	<u>Order</u> .....	123

## I. INTRODUCTION

In the base rate proceeding for UGI Utilities, Inc. Gas Division, the active parties were able to reach a Full Settlement of their disputes. UGI originally sought an increase of \$71.1 million in annual distribution revenues in its initial filing with the Pennsylvania Public Utility Commission (Commission). The Settlement reached by the parties provides for an annual distribution rate revenue increase of \$30.0 million, to become effective on or before October 29, 2019 for service rendered thereafter. The distribution rate revenue increase of \$30.0 million is approximately 42% of the proposed revenue increase of \$71.1 million requested in UGI Gas' January 28, 2019 filing. The rate impact of the settled revenue allocation on Residential Heating customers will be as follows:

- For former UGI South Rate District Customers, under the Settlement Rates the bill for a typical Residential Heating customer that uses 64.0 Ccf per month will increase by \$8.31 per month, from \$63.81 to \$72.11 (or 13.0%), including purchased gas costs and other surcharges. In comparison, in the Company's proposed filing, the bill for a typical Residential Heating customer would have increased by \$10.48 per month from \$62.45 to \$72.93 (or 16.8%), including purchased gas costs and other surcharges.
- For former UGI North Rate District Customers, under the Settlement Rates, the bill for a typical Residential Heating customer that uses 92.3 Ccf per month will increase by \$0.08 per month, from \$91.13 to \$91.22 (or 0.1%), including purchased gas costs and other surcharges. In comparison, in the Company's proposed filing, the bill for a typical Residential Heating customer would have increased by \$7.65 per month from \$89.72 to \$97.37 (or 8.5%), including purchased gas costs and other surcharges.
- For former UGI Central Rate District Customers, under the Settlement Rates, the bill for a typical Residential Heating customer that uses 79.0 Ccf per month will decrease by \$15.69 per month, from \$95.39 to \$79.70 (or -16.5%), including purchased gas costs and other surcharges. In comparison, in the Company's proposed filing, the bill for a typical Residential Heating customer would have decreased by \$7.77 per month from \$93.68 to \$85.91 (or -8.3%), including purchased gas costs and other surcharges.

This decision recommends that the Commission approve the Joint Petition for Approval of Settlement of All Issues without modification.

## II. HISTORY OF THE PROCEEDING

On January 28, 2019, UGI Utilities, Inc. - Gas Division (UGI Gas) filed proposed Tariff Gas- Pa. P.U.C. Nos. 7 and 7S to become effective March 29, 2019. Tariff Nos. 7 and 7S set forth proposed changes in rates, rules, and regulations calculated to produce approximately \$71.1 million (8.9%) in additional annual revenues.

On January 31, 2019, Scott B. Granger, Esq., entered a Notice of Appearance on behalf of the Commission's Bureau of Investigation and Enforcement (I&E).

On February 7, 2019, the Office of Consumer Advocate (OCA) filed a Public Statement, a Notice of Appearance on behalf of Christy M. Appleby, Esq., David T. Evrard, Esq., Lauren M. Burge, Esq., and Darryl A. Lawrence, Esq., and a formal Complaint. The Complaint was docketed at C-2019-3007753.

Also on February 7, 2019, the Office of Small Business Advocate (OSBA) filed a Verification, Public Statement, a Notice of Appearance on behalf of Steven C. Gray, Esq., and a formal Complaint. The Complaint was docketed at C-2019-3007756.

On February 14, 2019, the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA) and the Commission on Economic Opportunity (CEO) each separately filed Petitions to Intervene in this proceeding.

On February 15, 2019, Keith P. Dolon filed a formal Complaint to the proposed rate increase. The Complaint was docketed at C-2019-3007953.

On February 21, 2019, the Natural Gas Supplier Parties (NGS) and the Retail Energy Supply Association (RESA) filed a Petition to Intervene in this proceeding.

Also, on February 21, 2019, Gail L. Hoffer and Bernadette Margel filed a formal Complaint to the proposed rate increase. Their Complaint was docketed at C-2019-3008002.

On February 28, 2019, Direct Energy Business, LLC, Direct Energy Services, LLC and Direct Energy Business Marketing, LLC (Direct Energy) filed a Petition to Intervene in this proceeding.

By Order entered February 28, 2019, the Pennsylvania Public Utility Commission (Commission) instituted an investigation into the lawfulness, justness, and reasonableness of the proposed rate increase. Pursuant to Section 1308(d) of the Public Utility Code, 66 Pa. C.S.A. § 1308(d), Tariff Gas- Pa. P.U.C. Nos. 7 and 7S was suspended by operation of law until October 29, 2019, unless permitted by Commission Order to become effective at an earlier date. In addition, the Commission ordered that the investigation include consideration of the lawfulness, justness and reasonableness of UGI Gas' existing rates, rules, and regulations. The matter was assigned to the Office of Administrative Law Judge for the prompt scheduling of hearings culminating in the issuance of a Recommended Decision.

In accordance with the Commission's February 28, 2019, Order, the matter was assigned to Deputy Chief Administrative Law Judge Christopher P. Pell.

In compliance with the Commission's February 28, 2019 Order, UGI Gas filed Supplement No. 1 to Tariff UGI Gas – Pa.P.U.C. Nos. 7 and 7S on March 6, 2019 to reflect the suspension of Tariff Nos. 7 and 7S until October 29, 2019.

On March 7, 2019, the Laborers' District Council of Eastern Pennsylvania (LDCEPA) filed a Petition to Intervene in this proceeding.

In accordance with a Prehearing Conference Order dated February 28, 2019, UGI Gas, I&E, OCA, OSBA, CAUSE-PA, CEO, NGS/RESA, Direct Energy, and the LDCEPA submitted prehearing memoranda to the presiding officer on March 11, 2019.

A dual location Prehearing Conference was held on March 13, 2019. Counsel for UGI Gas, I&E, OCA, OSBA, CAUSE-PA, NGS/RESA, Direct Energy, and the LDCEPA participated.<sup>1</sup>

No party opposed the Petitions to Intervene filed by CAUSE-PA, CEO, NGS/RESA, Direct Energy and the LDCEPA. Accordingly, I granted these Petitions during the Prehearing Conference and memorialized their status as Intervenors in my March 14, 2019 Prehearing Order #1.

On March 15, 2019, UGI Energy Services, LLC (UGIES) filed a Petition to Intervene in this proceeding.<sup>2</sup>

On March 19, 2019, James J. Knowlton and Christopher Visco filed formal Complaints to the proposed rate increase. Their Complaints were docketed at C-2019-3008606 and C-2019-3008737 respectively.

By Prehearing Order #2 dated March 26, 2019, I granted UGI Gas' Motion for Protective Order.

On March 27, 2019, Ruth E. Neely filed a formal Complaint to the proposed rate increase. The Complaint was docketed at C-2019-3008833.

On April 19, 2019, Sam Galdieri filed a formal Complaint to the proposed rate increase. The Complaint was docketed at C-2019-3009325.

On April 22, 2019, public input Smart Hearings were held at 1:00 p.m. and 6:00 p.m. A total of four people testified at these hearings.

---

<sup>1</sup> On March 11, 2019, Joseph L. Vullo, Esquire, counsel for CEO, requested to be excused from attending the March 13, 2019 Prehearing Conference. As no party objected, his request to be excused from attending the Prehearing Conference was granted.

<sup>2</sup> In accordance with Paragraph 3 of my Prehearing Order #1 issued on March 14, 2019, UGIES' Petition to Intervene was deemed granted as no party objected to their Petition to Intervene within three business days of the date of the filing.



On April 29, 2019, Billie Sue Atkinson filed a formal Complaint to the proposed rate increase. The Complaint was docketed at C-2019-3009949.

On April 30, 2019, the following parties served Direct Testimony: OCA (Direct Testimonies of Lafayette K. Morgan, OCA St. No. 1 (Public and Confidential Versions); Kevin W. O'Donnell, OCA St. No. 2; Jerome D. Mierzwa, OCA St. No. 3; Roger D. Colton, OCA St. No. 4; and Stacy L. Sherwood, OCA St. No. 5.); I&E (Direct Testimonies of D.C. Patel, I&E St. No. 1 (Proprietary Version); Anthony Spadaccio, I&E St. No. 2; Joseph Kubas, I&E St. No. 3; Christopher M. Henkel, I&E St. No. 4; Elena Bozhko, I&E St. No. 5 (Proprietary Version); and James Harcher, I&E St. No. 6 (Proprietary Version)); OSBA (Direct Testimony of Robert D. Knecht, OSBA St. No. 1 (Public and Confidential Versions)); CAUSE-PA (Direct Testimony of Mitchell Miller, CAUSE-PA St. No. 1); CEO (Direct Testimony of Eugene M. Brady, CEO St. No. 1); LDCEPA (Direct Testimony of Tony Siewell); and NGS/RESA (Direct Testimony of Laura Greenholt-Tasto, NGS/RESA St. No. 1).

On May 30, 2019, the following parties served Rebuttal Testimony: UGI Gas (Rebuttal Testimonies of Paul J. Szykman, UGI Gas Statement No. 1-R; Hans G. Bell, UGI Gas Statement No. 2-R (Public and Confidential Versions); Stephen F. Anzaldo, UGI Gas Statement No. 3-R; Megan Matter, UGI Gas Statement No. 4-R (Public and Confidential Versions); Paul R. Moul, UGI Gas Statement No. 5-R; Paul R. Herbert, UGI Gas Statement No. 6-R; David E. Lahoff, UGI Gas Statement No. 8-R; Shaun M. Hart, UGI Gas Statement No. 9-R; Daniel V. Adamo, UGI Gas Statement No. 10-R; Nicole M. McKinney, UGI Gas Statement No. 11-R; Angelina M. Borelli, UGI Gas Statement No. 12-R; and Theodore M. Love, UGI Gas Statement No. 13-R); OCA (Rebuttal Testimony of Jerome D. Mierzwa, OCA Statement No. 3-R); OSBA (Rebuttal Testimony of Robert D. Knecht, OSBA Statement No. 1-R); and Direct Energy (Rebuttal Testimony of Orlando Magnani, Direct Energy St. 1-R). CAUSE-PA, I&E, and NGS/RESA each separately filed letters advising that they would not be submitting Rebuttal Testimony.

On June 13, 2019, the following parties served Surrebuttal Testimony: OCA (Surrebuttal Testimonies of Lafayette K. Morgan, OCA Statement 1-S (Public and Confidential

Versions); Kevin W. O'Doneell, OCA Statement 2-S; Jerome D. Mierzwa, OCA Statement 3-S (Public and Confidential Versions); Roger D. Colton, OCA Statement 4-S; and Stacy L. Sherwood, OCA Statement 5-S); I&E (Surrebuttal Testimonies of D.C. Patel, I&E Statement No. 1-SR (Proprietary and Non-Proprietary); Anthony Spadaccio, I&E Statement No. 2-SR; Joseph Kubas, I&E Statement No. 3-SR; Christopher Henkel, I&E Statement No. 4-SR; and James Harcher, I&E Statement No. 6-SR); OSBA (Surrebuttal Testimony of Robert D. Knecht, OSBA Statement No. 1-S); CAUSE-PA (Surrebuttal Testimony of Mitchell Miller, CAUSE-PA Statement 1SR); Direct Energy (Revised Surrebuttal Testimony of Orlando Magnani, Direct Energy St. 1-SR); and NGS/RESA (Surrebuttal Testimony of Laura Greenholt-Tasto, NGS/RESA Statement No. 1-SR).

On June 18, 2019, UGI Gas served the following Rejoinder Testimonies: Paul J. Szykman, UGI Gas Statement No. 1-RJ; Hans G. Bell, UGI Gas Statement No. 2-RJ; Stephen F. Anzaldo, UGI Gas Statement No. 3-RJ; Megan Mattern, UGI Gas Statement No. 4-RJ; Paul R. Moul, UGI Gas Statement No. 5-RJ; Paul R. Herbert, UGI Gas Statement No. 6-RJ; David E. Lahoff, UGI Gas Statement No. 8-RJ; Shaun M. Hart, UGI Gas Statement No. 9-RJ; Daniel V. Adamo, UGI Gas Statement No. 10-RJ; and Angelina M. Borelli, UGI Gas Statement No. 12-RJ.

Also on June 18, 2019, Jessica R. Rogers, Esq., Counsel for UGI Gas, contacted me on behalf of all the parties to inform me that the parties had reached a settlement on all issues. Ms. Rogers requested that the hearings for June 19<sup>th</sup> and 21<sup>st</sup> be cancelled, and that the hearing scheduled for June 20, 2019 proceed to allow the parties to move all of the evidence into the record. I granted this request.

The evidentiary hearing was held as scheduled on June 20, 2019. During the hearing, UGI Gas, OCA, I&E, OSBA, CAUSE-PA, CEO, NGS/RESA and Direct Energy each moved to have their witnesses' testimonies and exhibits entered into the record. As there were

no objections, the aforementioned parties' testimony and/or exhibits were admitted into the record during the hearing.<sup>3</sup>

On July 22, 2019, the Joint Petition for Approval of Settlement of All Issues (Joint Petition or Settlement) was filed along with Statements in Support by UGI Gas, OCA, I&E, OSBA, CAUSE-PA, CEO, NGS/RESA, and Direct Energy. UGIES was signatory to the Settlement but did not file a Statement in Support. LDCEPA has not taken any position on the Settlement.

By letter dated July 24, 2019, I informed the consumer Complainants in this matter of the Settlement and requested that they indicate if they wished to join, oppose or take no position on the proposed Settlement. I also enclosed a signature page that the consumer Complainants could sign and return to me if they wished to join in the settlement petition. I did not receive a response from any of the consumer Complainants.

The record in this matter consists of the transcripts of the prehearing conference, the public input hearings and the evidentiary hearing as well as the statements and exhibits which were admitted into the record during the June 20, 2019, evidentiary hearing. The Joint Petition for Approval of Settlement of All Issues, with its appendices, will be admitted into the record through this Recommended Decision.

The parties' position is that the Settlement is fair, just, and reasonable and reflects a reasonable compromise of the disputed issues in this proceeding. I agree. The Settlement terms appear to be a fair and reasonable resolution of the various issues, and appropriately balances the interests of the company and its customers. Therefore, it is recommended that the Joint Petition for Approval of Settlement of All Issues should be approved without modification by the Commission.

---

<sup>3</sup> Ira H. Weinstock, Esq., counsel for LDCEPA, did not appear at the June 20, 2019 evidentiary hearing. Moreover, no other attorney appeared at the June 20, 2019 hearing on LDCEPA's behalf. Consequently, since no one appeared on LDCEPA's behalf at the June 20, 2019 hearing to move its witness statement into the record of this proceeding, the Direct Testimony of Tony Siewell, served by the LDCEPA on the parties and me on April 30, 2019, is not part of the record at this Docket.

### III. FINDINGS OF FACT

1. UGI Gas is a jurisdictional public utility providing natural gas distribution service to customers in forty-five (45) counties in the Commonwealth of Pennsylvania.

2. On January 28, 2019, UGI Gas filed Tariff Gas – PA. P.U.C. Nos. 7 and 7S to be effective for service rendered on or after March 29, 2019, proposing changes to UGI Gas’s base retail distribution rates designed to produce an increase in revenues of approximately \$71.1 million, based upon data for a fully projected future test year ending September 30, 2020.

3. I&E is the prosecutory bureau for purposes of representing the public interest in ratemaking and service matters before the Office of Administrative Law Judge and for enforcing compliance with the state and federal motor carrier safety and gas safety laws and regulations. *Implementation of Act 129 of 2008 Organization of Bureau and Offices*, Docket No. M-2008-20071852 (Order entered August 11, 2011).

4. Complainant OCA is authorized to represent the interests of consumers before the Commission. Act 161 of 1976, 71 P.S. § 309-2.

5. Complainant OSBA is authorized to represent the interests of small business consumers of utility service in Pennsylvania under the provisions of the Small Business Advocate Act. Act 181 of 1988, 73 P.S. §§ 399.41 - 399.50.

6. CAUSE-PA is an unincorporated association of low-income individuals that advocates on behalf of its members to enable consumers of limited economic means to connect to and maintain affordable water, electric, heating and telecommunications services.

7. CEO is a not-for-profit corporation organized and existing under the laws of the Commonwealth of Pennsylvania which serves as an advocate for the low-income population of Luzerne County.

8. NGS/RESA is composed of two NGS parties, Dominion Energy Solutions, Inc., and Shipley Choice LLC d/b/a/ Shipley Energy, as well as RESA. RESA is an organization representing a group of retail energy suppliers dedicated to promoting efficient, sustainable and customer-oriented competitive retail energy markets.

9. The Direct Energy Companies are NGSs that operate in the UGI Gas service territory.

10. UGIES is an NGS that operates in the UGI Gas service territory and is an affiliate of UGI Gas.

11. In addition to the aforementioned active parties, the following inactive parties are involved in this proceeding: the Laborers' District Council of Eastern Pennsylvania (which submitted direct testimony in this proceeding, but did not otherwise participate); and consumer Complainants Keith P. Dolon, Gail L. Hoffer & Bernadette Margel, James J. Knowlton, Christopher Visco, Ruth E. Neely, Sam Galdieri, and Billie Sue Atkinson.

12. The active parties engaged in extensive discovery throughout the proceeding.

13. I&E, OCA, OSBA, CAUSE-PA, CEO, NGS/RESA, and Direct Energy submitted testimony in opposition to various portions of the Company's base retail distribution rate filing.

14. The active Parties agreed to a settlement that fully resolves all issues among them.

15. On July 22, 2019, a Joint Petition for Approval of Settlement of All Issues was filed on behalf of UGI Gas, I&E, OCA, OSBA, CAUSE-PA, CEO, Direct Energy, NGS/RESA, and UGIES.

16. The active Parties are in full agreement that the Settlement is in the public interest as a reasonable resolution of their respective interests and should be approved.

#### IV. PUBLIC INPUT HEARINGS

On April 22, 2019, public input Smart Hearings were held at 1:00 p.m. and 6:00 p.m. A total of four people testified. Three witnesses testified at the 1:00 p.m. hearing and one witness testified at the 6:00 p.m. hearing. All of the witnesses opposed the requested rate increase.

State Representative Thomas L. Mehaffie, III offered testimony as a legislator, as a local business owner, and as a customer of UGI Gas. Representative Mehaffie testified that he is a resident and Representative of the Southern Rate District. Representative Mehaffie clarified that he is a customer of UGI Gas through his business T&L Rentals, and that he is not a residential customer of UGI Gas. Representative Mehaffie testified that the rate increase sought by UGI Gas is substantial, especially when considering the \$27 million increase UGI Gas received less than three years ago. Representative Mehaffie asserted that the 16.8% increase will hurt his community and his constituents, noting that the harm is particularly flagrant when considering UGI Gas' requested equity return of 11.25%.

Representative Mehaffie further asserted that UGI Gas' request for a management performance bonus of 25 basis points for actions that are part of the Company's role as a public utility is inappropriate. Representative Mehaffie also challenged UGI Gas' attempts to use its growing customer base as a reason for performance bonuses, since the Company will receive additional income from these new customers along with an increase in rate base for them. Representative Mehaffie further challenged other reasons listed by UGI Gas in support of its request, such as planning to build a training center and updating their computer systems, as just a part of owning a business, not reasons deserving an extra reward. Representative Mehaffie maintained that UGI Gas' rate increase request should be rejected as contrary to the public interest.<sup>4</sup>

---

<sup>4</sup> Tr. 41-44.

Eric Epstein testified on behalf of Three Mile Island Alert (TMI Alert), a safe energy organization with membership in eight counties in Central Pennsylvania. Mr. Epstein testified that TMI Alert is opposed to the \$71.1 million rate increase as it is concerned with the impact that the proposed rate increase may have on low-income families, middle-class families, working-class families, and seniors with limited income, particularly when considering all of the other rate increases they experienced in 2018. Mr. Epstein further testified that TMI Alert is concerned with the frequency in rate increase requests. Mr. Epstein requested that, when reviewing this rate increase request, the Commission take into consideration the property devaluations and windfall profit UGI Gas has had, as well as to review and tie any rate increase to CAIDI/SAIDI standards. Additionally, Mr. Epstein maintained that reliability and service standards have decreased substantially in the last ten years. Mr. Epstein also noted his concern that a rate increase would have an impact on other bills, noting that a rate increase forces an increase to school, hospital and church bills. Mr. Epstein requested that the Commission deny the requested rate increase.<sup>5</sup>

James Nolton testified that he believes the requested rate increase to be excessive.<sup>6</sup>

Joseph Meier testified that he is a retired schoolteacher living on a fixed income, and that the requested rate increase would be devastating to him. Mr. Meier maintained that UGI Gas should be funding pipeline replacement from past and present income.<sup>7</sup>

## V. DESCRIPTION OF THE SETTLEMENT

UGI Gas filed a Joint Petition for Approval of Settlement of All Issues on July 22, 2019. The Petition includes the terms of the Settlement, including terms related to revenue requirement, revenue allocation and rate design, UGI Gas' energy efficiency and conservation plan, universal service and other low income issues, transportation, accounting, safety, and other issues. The Settlement also included the following appendices:

---

<sup>5</sup> Tr. 45-52.

<sup>6</sup> Tr. 55-58.

<sup>7</sup> Tr. 77-78.

Appendix A	Pro Forma Tariff Supplement
Appendix B	Proof of Revenues
Appendix C	Proposed Findings of Fact
Appendix D	Proposed Conclusions of Law
Appendix E	Proposed Ordering Paragraphs

Additionally, statements in support of each party joining the Settlement are attached to the Joint Petition for Approval of Settlement of All Issues.

## VI. TERMS AND CONDITIONS OF THE SETTLEMENT

The Joint Petitioners have agreed to a Settlement covering all issues in this proceeding. The terms and conditions of the Settlement are set forth fully below, beginning at paragraph 15 through and including paragraph 73 of the Joint Petition for Approval of Settlement of All Issues filed on July 22, 2019. The Joint Petition also includes the usual settlement conditions that are typically included in settlements. These terms, among other things, protect the parties' rights to file exceptions if any part of the Settlement is modified, condition the agreement upon approval by the Commission and provide that no party is bound in future rate cases by any particular position taken in this case. These additional terms and conditions will not be repeated here verbatim. The reader is directed to the Petition itself.

The Joint Petitioners to the UGI Gas Settlement include I&E, OCA, OSBA, CAUSE-PA, CEO, Direct Energy, NGS/RESA, and UGIES. The Settlement terms among the Joint Petitioners and UGI Gas consist of the following terms and conditions with the original paragraph numbering maintained:



## General

15. The following terms of this Settlement reflect a carefully balanced compromise of the interests of all of the active Parties in this proceeding. The Joint Petitioners agree that the Settlement is in the public interest.
16. The Joint Petitioners agree that UGI Gas's January 28, 2019, distribution base rate increase filing should be approved, including those tariff changes included in and specifically identified in **Appendix A** attached hereto, subject to the terms and conditions of this Settlement specified below.

## Revenue Requirement

17. UGI Gas will be permitted to submit a revised tariff supplement designed to produce an annual distribution revenue increase of \$30.0 million, to become effective on or before October 29, 2019, for service rendered thereafter. The increase in annual distribution rate revenue is in lieu of the as filed increase of approximately \$71.1 million. The settlement as to revenue requirement shall be a "black box" settlement, except for the items set forth below.
18. Test Year Plant Reporting Obligation. An update to UGI Gas's Revised Exhibit A, Schedule C-2 shall be submitted to I&E, OCA, and OSBA no later than January 2, 2020, which update should include actual capital expenditures, plant additions, and retirements by month from October 1, 2018 through September 30, 2019, and an additional update to Schedule C-2 for actual expenditures by month from October 1, 2019 through September 30, 2020 shall be filed no later than January 2, 2021.
19. DSIC-eligible Plant Balances. As of the effective date of rates in this proceeding, UGI Gas will be eligible to include plant additions in the Distribution System Improvement Charge ("DSIC") once the total net plant balances reach the levels projected to be in service in Revised UGI Gas Exhibit A as of September 30, 2020 (\$2,875,056,000). The foregoing provision is included solely for purposes of calculating the DSIC and is not determinative for future ratemaking purposes of the projected additions to be included in rate base in an FPFTY filing.
20. DSIC Calculation Return On Equity. For purposes of calculating its DSIC, UGI Gas shall use the equity return rate for gas utilities contained in the Commission's most recent Quarterly Report on the Earnings of Jurisdictional Utilities and shall update the equity return rate each quarter consistent with any changes to the equity return rate

for gas utilities contained in the most recent Quarterly Earnings Report, consistent with 66 Pa. C.S. § 1357(b)(3), until such time as the DSIC is reset pursuant to the provisions of 66 Pa. C.S. § 1358(b)(1).

21. EE&C. The overall revenue requirement assumes that the Company’s proposed Energy Efficiency and Conservation (“EE&C”) Plan test year modifications, including the expansion of the program into the UGI Central rate district, are approved as part of this proceeding subject to the modifications discussed below in Paragraphs 32 through 36. The overall revenue requirement includes annual EE&C expenditures.

**Revenue Allocation/Rate Design**

22. Billing Determinants. Use per customer and number of customer billing determinants utilized in the proof of revenue (UGI Gas Exhibit E) will be those set forth in the Company’s initial filing, except that the sales for Rate R/RT shall be increased by 1,128,518 Mcf (2 Mcf per year per Rate R/RT heating customer).
23. Revenue Allocation. Class revenue allocation will be based on the following table:

<b>Class</b>	<b>Revenue Allocation (\$ million)</b>
<b>Rate R/RT</b>	<b>\$ 23.02</b>
<b>Rate N/NT</b>	<b>\$ 4.85</b>
<b>Rate DS</b>	<b>\$ 0.49</b>
<b>Rate LFD</b>	<b>\$ 0.79</b>
<b>Rate XD</b>	<b>\$ 0.95</b>
<b>Rate IS</b>	<b>\$ (0.10)</b>
<b>Total</b>	<b>\$ 30.00</b>

24. Uniform Distribution Rates and Riders. The Company’s proposal to move all rate classes to uniform distribution and purchased gas cost rates on the effective date of new rates established in this proceeding is accepted, provided, however, that for Rate N/NT and Rate DS, uniform distribution rates will be achieved in two steps (Step 1 beginning with the effective date of new rates and Step 2 effective with new rates established in the Company’s next general rate proceeding under 66 Pa. C.S. § 1308(d)). For Step 1, the Rate N/NT North rate district rates will be increased by twelve (12) percent and Rate DS North rate district rates will be increased by twenty (20) percent, with Rate N/NT and Rate DS South and Central rate districts being set uniformly by class to recover the remaining N/NT and DS revenue requirements, respectively. For Step 2, the parties reserve

their rights to oppose the Company's proposed rates and propose alternative rates. Purchase Gas Cost ("PGC") rate consolidation will occur with the effective date of the new PGC year, December 1, 2019.

25. Monthly Customer Charges. The customer charges shall be those proposed by the Company except as set forth below:

- Rate R/RT: \$14.60 (\$19.00 proposed);
- N/NT: \$23.50 (\$37.00 proposed)
- DS: \$260.00 (\$280 proposed);
- LFD: \$670.00 (as filed)

26. Interruptible Revenue. Proof of Revenue will include a total of \$24.602 million of interruptible revenue (versus \$14.9 million, as filed). The Company's proposed Extension and Expansion Fund and Interruptible Sharing Mechanism are withdrawn.

27. GET Gas. The Company's Growth Extension Tariff ("GET Gas") pilot program will continue for an additional five years subject to annual reporting requirements. The Company will be permitted to implement GET Gas Surcharges, as reflected below:

- Residential: \$29.00;
- Commercial customer charge: \$20.03; and
- Commercial volumetric charge: \$1.87/Mcf.

However, the GET Gas Rider Rate for customers accepted by the Company before October 29, 2019 at the following rates shall remain unchanged:

- Rate Schedules R and RT: \$21.75 monthly charge
- Rate Schedules N and NT: \$13.08 monthly charge plus \$1.07 per Mcf for all usage.

Effective with the effective date of new rates in this proceeding, the Company may continue to use the GET Gas program to expand into additional underserved and unserved areas of its certificated service territory except in Gas Beyond the Mains territories already determined uneconomic by the Commission. The Company will include in each above-referenced annual report an economic evaluation including cost, saturation and revenue projections for each GET Gas project.

28. USP Rider. The Company's proposed Universal Service Program ("USP") Rider is accepted, provided that the 9.2 percent Customer

Assistance Program (“CAP”) Credit bad debt offset will be applied where CAP enrollment exceeds 19,672 CAP customers rather than the Company’s proposed level of 21,530.

29. Tax Cuts and Jobs Act. The Company’s proposal to flow-back January through June 2018 Tax Cuts and Jobs Act tax savings to customers, including applicable interest, is accepted.
30. PGC Revenue Adjustment. The Company will agree to move the PGC Revenue Overcollection issue to the pending PGC rate proceeding at Docket No. R-2019-3009647. All parties reserve their right to support or oppose the Company’s position in the context of that proceeding.
31. ACH/Credit Card Fee Waiver. The Company’s proposal to eliminate credit card fees is accepted.

### **Energy Efficiency and Conservation Plan**

32. General. The Company’s proposal to extend the current EE&C programs to the Central rate district is approved. The Company’s proposed modifications to the EE&C plan and associated budgets are accepted for the five year period covering fiscal years 2020 thru 2024.
33. Evaluation Costs. EE&C evaluation costs will be allocated amongst all rate classes for ratemaking recovery as they are incurred.
34. Program Budgets. EE&C program budgets will be restricted so that program funds cannot be moved between residential and nonresidential rate classes. Budget flexibility within a rate class’ portfolio should be limited to twenty-five (25) percent of a program’s five-year total budget. The parties agree that the Company will petition the Commission for approval of changes of twenty-five (25) percent or more of a five-year total program budget within a rate class.
35. Recovery of LIURP through EE&C. UGI Gas will discontinue recovery of \$100,000 of LIURP funding through its EE&C Rider.
36. Assessment Fee for LIURP Participants. Starting with the effective date of new rates established in this proceeding, customers who contact the UGI LIURP Team and who are determined by the UGI LIURP Team to have income at or below two hundred (200) percent of FPL, but who do not meet LIURP high energy usage thresholds, or who request direct install measures not offered by LIURP but offered by the EE&C Residential Retrofit (“RR”) Program, will be referred to the RR Program to receive a fee-waived assessment. The RR assessment fee waiver, including all direct install measures

implemented under a fee-waived assessment, will be capped at \$250,000 annually. The \$250,000 is not incremental of the RR Program budget. Direct install measures shall include, but not be limited to: smart thermostats, low flow devices, and water heater tank temperature setback.

### **Universal Service and Other Low Income Issues**

37. Use of Community Based Organizations. The Company commits to maintaining its existing business relationship with Community Based Organizations (“CBOs”), subject to each individual CBO’s continued performance in conformance with the Company’s Universal Service and Energy Conservation Plan (“USECP”) rules and its contract with the Company.
38. Distribution of Universal Services Funding. The Company will maintain its current funding allocation as proposed in its pending USECP at Docket No. M-2017-2598190 across the geographic footprint of its former three rate districts unless and until a new allocation is proposed and approved as part of its next triennial USECP filing. Any additional funding agreed to in this proceeding will be distributed accordingly. The Company is permitted to reallocate no more than five (5) percent of that initial allocation across its former rate districts in a given program year. The parties may raise issues about the Company’s Consolidated LIURP and Hardship Fund programs in the next triennial USECP filing. Any revision to this funding allocation will be circulated to all parties and shared with Commission staff at the Bureau of Consumer Services, and will include data about the actual spending for each of the two programs to date.
39. Unspent Program Dollars. Unspent program dollars for UGI Gas’s Consolidated LIURP and Hardship Fund programs at the end of a program year will roll over and be added to the budget for the following year.
40. Annual LIURP Funding Increase. The Company agrees to increase its aggregate LIURP expenditures by \$400,000 for its pending triennial USECP with such funding to commence no earlier than January 1, 2020.
41. Emergency Furnace Repair Program. Starting no earlier than January 1, 2020, UGI Gas will increase its aggregate Gas LIURP budget by \$100,000 per year to provide additional funding for its Emergency Furnace Repair Program. The Company will permit all eligible customers throughout the service territory to participate.

42. Third Party Notification Program. UGI Gas will agree to provide Third Party Notification (“TPN”) forms to its CBOs for inclusion in their assistance applications. To the extent that CBOs charge UGI Gas for use of these TPN forms, UGI Gas will be permitted to recover these costs through the USP Rider.
43. Forms of Income Verification for Cold Weather Protections. UGI Gas will agree to amend its tariff language on cold weather protection to adopt the language from the Columbia Gas of Pennsylvania tariff. UGI Gas’s tariff will be revised to state as follows: “The Company will use financial information from the customer provided within the most recent twelve (12) month period to determine if a customer exceeds the 250% federal poverty threshold.”
44. Government Identification to Establish Service. UGI Gas will agree to modify its tariff to specifically identify that any current form of government-issued identification, including identification issued by a foreign government, will be accepted to establish service.
45. Security Deposit Waiver. UGI Gas will agree to revise its letter, as well as its call scripts, training materials, and other written policies and procedures, to clarify that enrollment in CAP is not a requirement to obtain a security deposit waiver, and to clarify the steps that the customer must take to obtain a security deposit waiver. UGI Gas will review its revised materials at its annual Universal Service Program Collaborative Meeting, and will solicit feedback and recommendations for further revisions from participants at the meeting.
46. Release of Previously Collected Security Deposits. On a monthly basis, UGI Gas will review currently held security deposits, and will issue a bill credit or refund for any deposit previously collected from a confirmed low income customer. UGI Gas will continue this monthly review process until programming for a permanent fix to its billing system is complete and operationalized.
47. Quarterly CAP Rate Plan Review. On a quarterly basis, UGI Gas will review CAP rates for those enrolled in the average bill or percentage of income CAP rate plans to determine whether a more affordable rate plan is available. To the extent the CAP customer qualifies, the CAP customer’s applicable CAP rate will be adjusted to the lowest available rate at the time of review. UGI Gas will be permitted to recover any just and reasonably incurred Information Technology costs associated with formalizing this practice in its customer billing system through its Rider USP. Such costs to be recovered through the USP will be capped at \$125,000. UGI Gas will be permitted to recover all Information Technology costs associated with formalizing this practice

in its customer billing system through its Rider USP. UGI Gas will begin this review process within 10 months of the effective date of rates. Within 90 days after the first quarterly CAP rate adjustment is made, UGI Gas will report to the parties on the number of rate adjustments made through this review process.

48. Budget Billing Enrollment. UGI Gas will eliminate its restriction on Budget Billing enrollment that bars the enrollment of customers in arrears in Budget Billing. Any arrearage balance and payments towards the arrearage balance will be accounted for separately from the customer's Budget Bill amount.
49. Timing. Except as otherwise indicated, the Company agrees to implement the agreed upon enhancements to its universal service program changes specified above within ninety (90) days of the effective date of the rate increase. The Company will file a status report with the Commission certifying that the agreed-upon policy changes have been implemented within one hundred and eighty (180) days of the effective date of the rate increase.

## **Transportation**

50. General. Unless modified in the following paragraphs, the Company's proposed choice and non-choice transportation program rules are approved and shall become effective November 1, 2019, in the case of the choice transportation program and November 1, 2020, in the case of the non-choice transportation program.
51. Delivered Supply Service. Effective November 1, 2020, the Company will make necessary tariff changes in its compliance filing in this case to allow deliveries of delivered supply service available to a Natural Gas Supplier ("NGS") under the choice program to be used to meet its non-choice delivery requirements to the extent the delivered supply capacity is not needed to serve a NGS's choice load. Such deliveries will be subject to delivery region deliverability requirements.
52. Non-Choice Daily Balancing. Effective November 1, 2020, the applicable daily balancing tolerance shall be four and one-half (4.5) percent.
53. Rate NNS. The Company will adjust the storage trip cost in the calculation of Rate NNS charges to \$0.3483 per Mcf. The Company shall clarify in its tariff that Rate NNS service elections in excess of four and one-half (4.5) percent are interruptible. The resulting Rate NNS charges will be as follows:

	As Filed 1/28/2019	Settlement 6/13/2019
NNS Unit Cost \$/mcf	0.0092	0.0244
NNS Unit of Demand \$/mcf per month	0.1840	0.4880

54. Rate MBS. The following changes to the Rate MBS shall be made: 1) OCA's proposed inclusion of storage demand charges on a 100 percent load factor basis in the development of the rate shall be adopted; and 2) the Company will update the average monthly imbalance utilized in the development of Rate MBS charges annually with the actual average monthly imbalance for the 12 month period ending September to determine the new Rate MBS charges effective December 1 each year. The Company shall include the new Rate MBS charges as part of its annual PGC compliance filing. The resulting initial Rate MBS charges would be as follows:

	As Filed 1/28/2019	Settlement 6/13/2019 (with avg storage use = 1.54% as-filed)
MBS – DS \$/mcf	0.0141	0.0190
MBS – LFD \$/mcf	0.0082	0.0110
MBS – XD Firm \$/mcf	0.0084	0.0113

55. Acceptable Substitute Delivery Points. The Company's proposal is accepted with the following qualifications. First, the Company will delay implementation of the interconnections with the Sunbury Pipeline and Mt. Bethel Pipeline as Acceptable Substitute Delivery Points for non-choice transportation customer deliveries until November 1, 2023, provided that those points may be used for purchased gas cost obligations and choice related peaking and delivered services. Second, UGI Gas shall provide written notice on its Gas Management Website of any proposed interconnection points within thirty (30) days of the execution of an Interconnection Agreement with the Company where the interconnecting entity elects to have the Interconnection Point included as an Acceptable Substitute Delivery Point. Such notice will include a posting of the interconnecting entity's name and contact information with the express goal of allowing NGSs sufficient opportunity to consider adjustments to their supply plans.



56. Capacity Assignment. As reflected in Rule 22A.6 of the compliance tariff, effective November 1, 2020, the weighted average cost of demand (“WACOD”) charges to customers, or their NGS, served under Rates DS and LFD, and who utilize assigned PGC capacity, shall be modified as follows:

- (a) The WACOD charges for Rate DS shall include the associated demand charges for Peaking Services on a 100% percent basis, and the revised WACOD will be assessed to all Rate DS transportation customers;
- (b) The WACOD charges for Rate LFD shall include the associated demand charges of Peaking Services on a 50% percent basis, and the revised WACOD will be assessed to all Rate LFD customers electing assigned capacity;
- (c) The resulting WACOD charges under (i) and (ii) shall be reduced by the Economic Benefit of Peaking Service commodity supply defined in Rule 22A.6 (EBPS Credit), which shall be included as a monthly deduction (credit) to the WACOD calculation for Rate DS and Rate LFD customers on an actual experienced basis, subject to review and reconciliation through the 2021 PGC filing;
- (d) Modifications set forth in subparagraphs (i) – (iii) shall be implemented without further change on a pilot basis, and will become permanent unless changed by order of the Commission pursuant to a proposed change by the Company or any other party, which proposal may become effective only for periods after December 1, 2021;
- (e) The Company shall be held harmless in the application of the changes to the WACOD mechanism in this paragraph; and
- (f) The Company shall post on its password protected gas management website the calculation of the associated demand charges and the EBPS Credit on a monthly basis.

The Company’s capacity assignment proposals for Rate XD are accepted as filed.

57. Non-Choice Excess Imbalances.

**Cash-out Price.** The Company’s currently effective cash-out pricing methodology (Sections 20.2c and 20.4 in the UGI South Rate District and UGI North Rate District Gas Service Tariffs No. 6 and 9, respectively, and Sections 16.3c and 16.5 in UGI Central Rate District Gas Service Tariff No. 4) shall remain unchanged up through and including October 31, 2020 (“Transition Period”). Effective on and after November 1, 2020 (“Post-Transition Period”), the Company’s proposed delivery region cash-out pricing methodology shall become effective. The Company will include in the compliance tariff rules applicable to each of the Transition Period and the Post-Transition Period.

**Monthly Cash-out Volume.** The Company will include in the compliance tariff rules applicable to each of the Transition Period and the Post-Transition Period. For the Transition Period the Company’s monthly cash-out rules, as proposed by the Company, will be unchanged. For the Post-Transition Period, the Company will specify a cash-out methodology that cashes out, for both long and short positions, only the increment that is greater than 5% (rather than cash out the entire balance) once the 10% threshold is exceeded, but shall otherwise be as proposed by Company.

58. Supply Nomination Process.

**Supply Nomination Process** – The deadline for Delivered Supply under the choice program shall remain 8:45 am. The Company shall provide the Daily Delivery Requirement target no later than 8:15 am. The deadline for Bundled Supply under the choice program shall be extended from 9:00 am to 2:00 pm.

**DUNS numbers** – Effective November 1, 2019, the Company will institute a common DUNS number for the purpose of making customer and delivery nominations under the choice transportation program. Effective November 1, 2020, the Company will institute a common DUNS number for the purpose of making customer and delivery nominations under the non-choice transportation program.

59. Daily Metering Expansion. The Company’s proposal is accepted, as discussed in the Direct Testimony of Shaun Hart, UGI Statement No. 9, and the Company will exercise best efforts to transfer the remaining non-choice transportation accounts to calendar month billing and balancing pools by no later than November 1, 2020.

60. Merger of Southeast and Southwest Regions. The Company agrees to merge these regions. The updated delivery split requirements will be as follows:

Revised Delivery Regions and Requirements (Merged SW and SE regions)	
Region	Delivery Requirement
North	100% Tennessee
Central	100% Transco
South	30%-45% Columbia MA 21, 23, 25, 29 55%-70% Texas Eastern (Up to 8% of Texas Eastern supplies may be delivered to meters West of Dauphin and York)
West	100% Columbia – Market Area 36

61. Eligible Customer Delivery List. The Company agrees to modify its Eligible Customer List to provide associated customer delivery region designations. UGI Gas will continue to provide certain information concerning choice customers in accordance with the Commission’s customer information disclosure regulations at 52 Pa. Code §62.78. For non-choice customers, the Company will post a listing of account numbers and their respective delivery region designations on its website. Such posting will be made on a password protected website accessible only by authorized Company personnel and licensed NGSs qualified to do business on the UGI Gas system.
62. Producer List. UGI Gas shall release to suppliers a full list of producers directly connected to the UGI Gas system. Such posting will be made on a password protected website accessible only by authorized Company personnel and licensed NGSs.
63. Access to Storage. The Company commits to analyze the capability to provide a virtual storage proposal (“VSP”) to NGSs who provide “choice” natural gas supply service on the UGI Gas distribution system that will allow suppliers to manage injections and withdrawals of supply through nominations made to the Company. The VSP analysis shall include a review of allowable mechanisms pursuant to FERC policy and rules in order to identify potential legal barriers and solutions, if any, and provide a strawman proposal to the extent the Company identifies a workable VSP construct. Such proposal may include, but may not be limited to, the identification of all associated costs related to specific asset utilization, administrative costs and IT architecture costs. The VSP analysis shall be completed no later than March 1, 2020. The Company will thereafter hold a collaborative meeting for stakeholder input, and pending the outcome of that

collaborative, may thereafter make a VSP filing with the Commission; with such filing, if made, being no later than October 1, 2020. If UGI Gas determines not to make a filing, all parties expressly preserve their rights regarding future litigation of this issue.

## **Accounting**

### 64. Environmental Cost Recovery.

**Normalized Allowance.** The Settlement reflects an annual normalized amount of \$4.188 million for prospective environmental expenditures under the Pennsylvania Department of Environmental Protection (“DEP”) Consent Order Agreements (“COAs”), as shown on UGI Gas Exhibit A (FPPTY), Schedule D-8, line 4.

Annual differences between \$4.188 million and actual expenditures will be deferred as a regulatory asset (where expenditures are greater than \$4.188 million per year) or as a regulatory liability (where expenditures are less than \$4.188 million on an annual basis) and accumulated for book and ratemaking purposes until the Company’s next base rate case.

**Amortization of Prior Balances.** The Settlement reflects the use of a five-year amortization period to be applied to the combined regulatory asset balances of \$8.103 million set forth on UGI Gas Exhibit A, Schedule D-8, lines 9 and 13, to establish a combined expense to be amortized for book and ratemaking purposes of \$1.621 million per year.

65. ADIT/EDFIT. The Company’s Accumulated Deferred Income Tax (“ADIT”) and pro-ratation methodology as required by Treasury Regulation 1.167(l)-1(h)(6)(ii) is accepted. Further, the Company’s method to amortize Excess Accumulated Deferred Federal Income Taxes (“EDFIT”) according to the Average Rate Assumption Method (“ARAM”) is accepted. Absent a change in federal or state law, regulation, judicial precedent or policy, the remaining unamortized EDFIT balance will continue as a reduction to rate base in all future proceedings until the full amount is returned to ratepayers.

66. Repairs Allowance. For purposes of determining the revenue requirement in this case, all capitalized repairs deductions claimed on a tax return have been normalized for ratemaking purposes and the appropriate related amount of tax effect of those deductions has been reflected as ADIT as a reduction to UGI Gas’s rate base.

67. UNITE/Hypercare. The Company's proposed accounting treatment for UNITE and Hypercare costs is accepted.
68. Accounting for Mechanical Tee Programs. Effective October 1, 2018, the Company will be permitted, for book accounting purposes, to record the costs associated with its mechanical tee remediation program as capital investment.
69. Depreciation Rates. For purposes of this settlement, the Company's as-filed depreciation rates are accepted for the Company's accounting purposes.

### **Safety**

70. UGI Gas agrees to continue conducting separate risk analyses for each of the three districts and will continue to maintain a combined system-wide calculated risk for all assets across company territories in one master DIMP record which will be utilized for LTIP prioritization purposes.
71. UGI Gas agrees to continue taking affirmative steps to reduce restoration costs, through efforts including, but not limited to, coordinating pipe replacement projects with other street projects, and replacing pipe using trenchless construction techniques where technically and economically feasible.
72. UGI Gas agrees to hold a one-time stakeholder meeting with the Commission's Safety Division, and any other interested parties to this proceeding, within sixty (60) days following the final order in this proceeding, to elicit input into potential strategies designed to reduce construction and restoration costs associated with pipeline replacement projects.

### **Other Issues**

73. Interruptible Customer Competitive Analysis. The Company agrees to maintain a competitive alternative analysis for each interruptible customer with alternate fuel capability every five (5) years. The competitive alternative analysis will include twelve (12) months of historical usage, the date the analysis was completed, and a reasonable proxy cost on an equivalent BTU basis the customer would incur to utilize the alternative fuel based on published index prices for the alternative fuel. The analysis will compare the IS rates each customer pays with the cost that customer would incur to utilize the alternative fuel. The competitive analysis for each customer will include a listing of actual interruptions with dates and duration in the past five years.

The first Interruptible Customer Competitive Analysis will be provided in the next base rate case.

## VII. LEGAL STANDARD

The purpose of this investigation is to establish rates for UGI Gas' customers that are just and reasonable pursuant to Section 1301 of the Public Utility Code.<sup>8</sup> The burden of proof in a ratemaking proceeding is on the public utility.<sup>9</sup>

A public utility seeking a general rate increase is entitled to an opportunity to earn a fair rate of return on the value of the property dedicated to public service.<sup>10</sup> In determining what constitutes a fair rate of return, the Commission is guided by the criteria set forth in *Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia*,<sup>11</sup> and *Federal Power Commission v. Hope Natural Gas Co.*<sup>12</sup> In *Bluefield*, the United States Supreme Court stated:

A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. 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. A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.<sup>[13]</sup>

---

<sup>8</sup> 66 Pa.C.S. § 1301.

<sup>9</sup> See 66 Pa.C.S. § 315(a); *Lower Frederick Twp. v. Pa. Pub. Util. Comm'n.*, 48 Pa. Commw. 222, 226-27, 409 A.2d 505, 507 (1980) (citations omitted). See also, *Brockway Glass v. Pa. Pub. Util. Comm'n.*, 63 Pa. Commw. 238, 437 A.2d 1067 (1981).

<sup>10</sup> *Pennsylvania Gas & Water Co. v. Pa. Pub. Util. Comm'n.*, 341 A.2d 239 (Pa.Cmwlt. 1975).

<sup>11</sup> 262 U.S. at 679 (1923).

<sup>12</sup> 320 U.S. at 591 (1944).

<sup>13</sup> 262 U.S. at 692-93.

The Commission encourages parties in contested on-the-record proceedings to settle cases.<sup>14</sup> Settlements eliminate the time, effort and expense of litigating a matter to its ultimate conclusion, which may entail review of the Commission’s decision by the appellate courts of Pennsylvania. Such savings benefit not only the individual parties, but also the Commission and all ratepayers of a utility, who otherwise may have to bear the financial burden such litigation necessarily entails.

By definition, a “settlement” reflects a compromise of the positions that the parties of interest have held, which arguably fosters and promotes the public interest. When active parties in a proceeding reach a settlement, the principal issue for Commission consideration is whether the agreement reached suits the public interest.<sup>15</sup> In their supporting statements, the Joint Petitioners conclude, after extensive discovery and discussion, that this Settlement resolves all of the contested issues in this case, fairly balances the interests of the company and its ratepayers, is in the public interest, and is consistent with the requirements of the Public Utility Code.

Not every issue was of equal concern to every party. Accordingly, each of the Joint Petitioners’ statements in support did not necessarily address each and every aspect of the Settlement.

---

<sup>14</sup> See 52 Pa.Code § 5.231.

<sup>15</sup> *Pa. Pub. Util. Comm’n v. CS Water and Sewer Associates*, 74 Pa. PUC 767, 771 (1991). See also *Pa. Pub. Util. Comm’n v. York Water Co.*, Docket No. R-00049165 (Order entered October 4, 2004); *Pa. Pub. Util. Comm’n v. Philadelphia Electric Company*, 60 Pa. PUC 1 (1985).

## VIII. DISCUSSION OF THE SETTLEMENT

### A. Revenue Requirement

#### 1. In General

The Settlement provides for an annual distribution rate revenue increase of \$30.0 million, to become effective on or before October 29, 2019 for service rendered thereafter.<sup>16</sup> The distribution rate revenue increase of \$30.0 million is approximately 42% of the proposed revenue increase of \$71.1 million requested in UGI Gas' January 28, 2019 filing. UGI Gas Statement in Support at 4.

The revenue requirement under the Settlement is a “black box” settlement, with certain exceptions.<sup>17</sup> UGI Gas notes that under a “black box” settlement, parties do not specifically identify rate base, revenues and expenses, and return that are allowed or disallowed. UGI Gas further notes that the “black box” concept often facilitates settlement agreements because it permits parties to retain their positions on important ratemaking issues, for the proceeding at hand as well as for future proceedings. UGI Gas Statement in Support at 4.

Additionally, UGI Gas notes that the Commission encourages black box settlements.<sup>18</sup> Under a “black box” settlement, it is not necessary for the ALJ to decide individual rate base or revenue and expense adjustments proposed by the parties or determine the return on equity under the Settlement in order to determine the reasonableness of the proposed revenue increase under the Settlement. UGI Gas Statement in Support at 4-5.

UGI Gas, on a combined basis, projected to spend more than \$750 million in system investments over the time periods covered by its filing. UGI Gas maintains that these

---

<sup>16</sup> Settlement ¶ 17.

<sup>17</sup> *Id.*

<sup>18</sup> *See, e.g., Pa. PUC v. Aqua Pennsylvania, Inc.*, Docket No. R-2011-2267958, pp. 26-27 (Order entered June 7, 2012); *Pa. PUC v. Peoples TWP LLC*, Docket No. R-2013-2355886, pp. 27-28 (Order entered Dec. 19, 2013); *Statement of Chairman Robert F. Powelson, Implementation of Act 11 of 2012*, Docket No. M-2012-2293611 (Public Meeting, Aug. 2, 2012).



investments are necessary to accelerate the replacement of aging gas plant infrastructure, upgrade and improve system segments and modernize facilities, serve new residential and commercial customers, connect customers converting to natural gas, and install and upgrade supporting information technology, all as part of growing and maintaining a safe and reliable distribution system and providing quality customer service. Since its last base rate case, UGI Gas has adopted modest annual wage and salary adjustments and will continue to do so, where reasonable, and has experienced other general price increases for necessary products and services.<sup>19</sup> UGI Gas Statement in Support at 5.

UGI Gas further maintains that the revenue increase is essential to UGI Gas' continued ability to attract capital on reasonable terms and provide safe and reliable service to customers. Although UGI Gas has implemented cost containment measures, efficiency enhancements, and has seen substantial customer growth over time, the growth in operating and capital investment, along with experienced and anticipated declines in per customer usage, have caused UGI Gas to be unable to earn a fair rate of return on its investment at present rate levels.<sup>20</sup> UGI Gas Statement in Support at 5.

Absent rate relief, UGI Gas projected that for the twelve months ending September 30, 2020, its return on common equity for the distribution business will fall to approximately 7.41%.<sup>21</sup> UGI Gas asserts that such a return is deficient under any reasonable standard and would preclude UGI Gas from obtaining capital on reasonable terms to finance infrastructure improvements needed to maintain reliable service to customers. UGI Gas further asserts that such a return on equity for the Fully Projected Future Test Year (FPFTY), absent rate relief, would also be significantly lower than the return on equity of 11.25% recommended by UGI Gas witness Moul in his testimony.<sup>22</sup> Rate relief will allow UGI Gas to continue to provide safe and reliable gas service and continue its capital investment strategy from a position of financial strength, which will allow the Company to make system investments that will enhance the reach and capacity of the UGI Gas distribution system and replace older, obsolete facilities.

---

<sup>19</sup> UGI Gas St. No. 1 at 7.

<sup>20</sup> *Id.*

<sup>21</sup> *Id.*

<sup>22</sup> UGI Gas St. No. 5 at 49-50.

UGI Gas believes that this is necessary to ensure continued system reliability, safety, and customer service performance.<sup>23</sup> UGI Gas Statement in Support at 5-6.

In this proceeding, UGI Gas, I&E, and OCA presented testimony on revenue requirement issues.<sup>24</sup> In its initial filing, UGI Gas proposed a revenue increase of \$71.1 million,<sup>25</sup> which included a proposed return on equity of 11.25%.<sup>26</sup> I&E initially recommended a revenue requirement decrease of approximately \$13.4 million<sup>27</sup> with a return on equity of 8.97%.<sup>28</sup> The OCA initially recommended a revenue requirement decrease of approximately \$25.1 million<sup>29</sup> with a return on equity of 8.75%.<sup>30</sup> UGI Gas notes that through negotiations, the Joint Petitioners were able to reach a compromise within a range of their competing litigation positions. UGI Gas Statement in Support at 6.

The \$30.0 million proposed revenue increase under the Settlement reflects concessions by the parties to reach a point between the positions adopted in the testimony of UGI Gas, I&E, and OCA. UGI Gas maintains that the proposed revenue increase of \$30.0 million under the Settlement is supported by substantial evidence, is just and reasonable, is in the public interest, and should be adopted without modification. UGI Gas Statement in Support at 6-7.

I&E notes that it engaged in extensive discovery and submitted extensive testimony regarding the proposed overall annual distribution revenue increase that was proposed in UGI Gas' base rate filing. In its direct testimony, I&E discussed several significant adjustments regarding UGI Gas' base rate filing that had the potential to have significant impacts to the proposed overall annual distribution revenue increase. The I&E adjustments that were discussed included, but were not limited to, adjustments to UGI Gas' Future Test Year (FTY)

---

<sup>23</sup> UGI Gas St. No. 1 at 8.

<sup>24</sup> Although the OSBA also presented testimony on revenue requirement issues, the OSBA did not present an overall recommended revenue requirement.

<sup>25</sup> UGI Gas St. No. 1 at 5.

<sup>26</sup> UGI Gas St. No. 5 at 49-50.

<sup>27</sup> I&E St. No. 1 at 3.

<sup>28</sup> I&E St. No. 2 at 23.

<sup>29</sup> OCA St. No. 1 at 5.

<sup>30</sup> OCA St. No. 2 at 3.

and FPFTY projected plant additions;<sup>31</sup> present rate revenues;<sup>32</sup> projected number of rate class R/RT heating and rate class N/NT customers;<sup>33</sup> projected rate class R/RT heating customer usage decline;<sup>34</sup> interruptible revenues;<sup>35</sup> overall rate of return and cost of common equity;<sup>36</sup> and various operation and maintenance expenses.<sup>37</sup> Some of these adjustments were later modified or withdrawn in I&E surrebuttal testimony. I&E Statement in Support at 8-9.

I&E fully supports the negotiated level of overall distribution rate revenue increase as compared to UGI Gas' original proposal. While the overall revenue requirement is a "black box" compromise, the overall revenue levels are within the levels advanced on the evidentiary record and reflect a full compromise of all revenue-related issues raised by the parties. And, as a "black box" settlement, unless specifically addressed, the Settlement does not reflect agreement upon individual issues. Therefore, in consideration of the extensive testimony presented by all of the parties to this proceeding, I&E fully supports the negotiated level of overall distribution rate revenue increase as a full and fair compromise that provides UGI Gas, the Joint Petitioners, affected ratepayers, and the Commission with resolution of these issues, all of which is in the public interest. I&E Statement in Support at 9.

OCA notes that the overall increase allowed by the Settlement is \$41.1 million less than the amount originally requested by the Company. Under the settlement, on a total bill basis, a typical residential customer in the South Rate District using 62.3 Ccf per month will see their monthly bill increase from \$62.39 to \$68.39, or by \$6.00 or 9.6%. This is approximately \$4.54 per month less than the Company's original proposal. A typical residential customer in the North Rate District using 90.6 Ccf per month will see their monthly bill increase from \$89.64 to \$92.82, or by \$3.18 or 3.5%. This is approximately \$4.55 per month less than the Company's original proposal. Lastly, a typical residential customer in the Central Rate District using 77.3

---

<sup>31</sup> I&E St. No. 3 at 4-11; I&E Exh. No. 3, Schs 1-4 and 5; I&E St. No. 3-SR at 3-10; I&E Exh. 3-SR, Schs 3-4.

<sup>32</sup> I&E St. No. 3 at 20-66; I&E Exh. No. 3, Schs 4, 13, 20-38, 43; I&E St. No. 3-SR at 22-62; I&E Exh. No. 3-SR, Sch. 1.

<sup>33</sup> I&E St. No. 3 at 37-52; I&E Exh. No. 3, Schs. 29-38; I&E St. No. 3-SR at 40-47.

<sup>34</sup> I&E St. No. 3 at 21-37; I&E Exh. No. 3, Schs. 20-28, 43; I&E St. No. 3-SR at 23-40; I&E Exh. No. 3 SR, Sch. 1.

<sup>35</sup> I&E St. No. 3 at 15-19, 53-64; I&E Exh. No. 3, Schs. 4, 6-13, 43; I&E St. No. 3-SR at 14-21, 47-61.

<sup>36</sup> I&E St. No. 2 at 2-52; I&E Exh. No. 2, Schs. 1-10; I&E St. No. 2-SR at 1-32.

<sup>37</sup> I&E St. No. 1 at 3-54; I&E Exh. No. 1, Schs. 1-12; I&E St. No. 1-SR at 3-57; I&E Exh. No. 1-SR, Sch. 1.

Ccf per month will see their monthly bill decrease from \$93.58 to \$81.35, a decrease of \$12.23 or 13.1%. This is approximately \$4.56 per month less than the Company's original proposal. OCA Statement in Support at 4.

Similar to UGI Gas and I&E, OCA notes that in general, the Settlement represents a "black box" approach to all individual revenue requirement issues, and that black box settlements avoid the need for protracted disputes over the merits of individual revenue adjustments and avoid the need for a diverse group of stakeholders to attempt to reach a consensus on a variety of financial numbers. The OCA submits that it is unlikely that the parties would have been able to reach a consensus on each of the disputed accounting and ratemaking issues raised in this matter, as policy and legal positions can differ widely. As such, the parties have not specified a dollar amount for each issue or adjustment raised in this case. Attempting to reach an agreement regarding each adjustment in this proceeding would likely have prevented any settlement from being reached. OCA Statement in Support at 5.

OCA maintains that, based on its analysis of the Company's filing, discovery responses received, and testimony by all parties, the revenue increase under the Settlement represents a result that would be within the range of likely outcomes in the event of full litigation of this case. OCA further maintains that the increase is reasonable and yields a result that is in the public interest, particularly when accompanied by other important conditions contained in the Settlement. As such, the OCA submits that the increase agreed to in this Settlement is in the public interest and in the interest of the Company's ratepayers, and should be approved by the Commission. OCA Statement in Support at 5.

## 2. Test Year Plant Reporting Obligation

UGI Gas' rate base claim in this case was based on the sum of the closing plant balances as of September 30, 2018 (HTY), plus the budgeted plant additions for the years ending September 30, 2019 (FTY) and September 30, 2020 (*i.e.* the FPFTY), less budgeted FTY and FPFTY plant retirements.<sup>38</sup> Stated otherwise, UGI Gas claimed an end-of-test-year rate base for

---

<sup>38</sup> UGI Gas St. No. 3 at 5.

the FPFTY. The OCA recommended an average FPFTY rate base, with some additional adjustments.<sup>39</sup> UGI Gas Statement in Support at 7.

As part of the Settlement, the Joint Petitioners agree that UGI Gas will submit updates to reflect the actual capital expenditures, plant additions, and retirements at the end of the FTY and FPFTY.<sup>40</sup> UGI Gas asserts that this Settlement provision is consistent with other base rate cases and will assist the Parties and the Commission in reviewing the consistency of UGI Gas' actual and budgeted capital expenditures for the FTY and FPFTY and the appropriate level of Distribution System Improvement Charge (DSIC) eligible plant that UGI Gas will recover in the future through an approved DSIC surcharge mechanism. UGI Gas Statement in Support at 7.

I&E submitted extensive testimony regarding test year plant-in-service.<sup>41</sup> Specifically, I&E recommended that the Company provide the Commission's Bureaus of Technical Utility Services and Investigation and Enforcement with an update to UGI Book 5 – Sch. C-2, no later than January 2, 2020, which shall include actual capital expenditures, plant additions, and retirements by month from October 1, 2018 through September 30, 2019.<sup>42</sup> I&E believes that the updates will provide valuable checks and balances to help determine how accurately UGI Gas projects investments in future facilities compared to the monthly actual investments and retirements that are made by the end of the FTY and the FPFTY.<sup>43</sup> I&E Statement in Support at 9-10.

In consideration of all of the testimony presented and the various positions presented by the Joint Petitioners, I&E supports this settled upon term regarding the test year plant reporting obligation as stated in the Joint Petition as a full and fair compromise that provides UGI Gas, the Joint Petitioners, affected ratepayers, and the Commission with resolution of the test year plant reporting issue, all of which is in the public interest. I&E Statement in Support at 10.

---

<sup>39</sup> OCA St. No. 1 at 5-9.

<sup>40</sup> Settlement ¶ 18.

<sup>41</sup> I&E St. No. 3 at 3-15; I&E St. No. 3-SR at 2-14.

<sup>42</sup> I&E St. No. 3 at 14; I&E St. No. 3-SR at 13.

<sup>43</sup> I&E St. No. 1-SR at 13.

### 3. DSIC Eligible Plant Balances

The Settlement provides that, as of the effective date of rates in this proceeding, UGI Gas will be eligible to include plant additions in the DSIC once the total net plant balances reach the levels projected to be in service in Revised UGI Gas Exhibit A as of September 30, 2020 (\$2,875,056,000). The Joint Petitioners agree that this provision is included solely for purposes of calculating the DSIC and is not determinative for future ratemaking purposes of the projected additions to be included in rate base in a FPFTY filing.<sup>44</sup> UGI Gas maintains that this provision fully complies with the requirements set out at 66 Pa.C.S. § 1358 and the Commission's Model Tariff that the DSIC be set to zero as of the effective date of new base rates that include the DSIC-eligible plant. UGI Gas Statement in Support at 7-8.

UGI Gas notes that this Settlement provision reasonably permits the DSIC to become effective once the actual plant in service levels exceed the levels projected by UGI Gas at September 30, 2020. This will ensure UGI Gas is able to timely recover the reasonable and prudent capital costs incurred to repair, improve, or replace its aging distribution infrastructure that is placed in service between base rate cases, which, in turn, provides customers with enhanced gas service safety and reliability benefits. Finally, UGI Gas notes that this settlement provision is similar to other settlement provisions the Commission has adopted for other public utilities using a FPFTY.<sup>45</sup> For these reasons, UGI Gas submits that this settlement provision should be approved without modification. UGI Gas Statement in Support at 8.

I&E notes that it submitted testimony regarding the FTY and FPFTY plant projections<sup>46</sup> which includes, generally, by reference, the relationship between the total net plant balances and DSIC eligible plant additions. I&E recognizes that 66 Pa. C.S. § 1351 *et seq.* provides the pertinent Commission regulations regarding the DSIC and the rate base treatment of DSIC eligible plant additions. Accordingly, I&E does not oppose this settlement term as a full and fair compromise that provides UGI Gas, the Joint Petitioners and the Commission with

---

<sup>44</sup> Settlement ¶ 19.

<sup>45</sup> See, e.g., *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2014-2406274 (Opinion and Order entered Dec. 10, 2014); *Pa. PUC v. UGI Utilities, Inc. – Gas Division*, Docket No. R-2015-2518438 (Opinion and Order entered Oct. 14, 2016).

<sup>46</sup> I&E St. No. 3 at 7-15; I&E St. No. 3-SR at 3-14.

regulatory certainty and resolution of this DSIC eligible plant issue, which is in the public interest. I&E Statement in Support at 11.

#### 4. DSIC Calculation Return on Equity

The Settlement provides that, for purposes of calculating its DSIC, UGI Gas shall use the equity return rate for gas utilities contained in the Commission's most recent Quarterly Report on the Earnings of Jurisdictional Utilities as updated each quarter consistent with any changes to the equity return rate for gas utilities contained in the most recent Quarterly Earnings Report, consistent with 66 Pa. C.S. § 1357(b)(3), until such time as the DSIC is reset pursuant to the provisions of 66 Pa. C.S. § 1358(b)(1).<sup>47</sup> UGI Gas submits that this Settlement provision is in the public interest because it satisfies the Commission's request that parties to a rate case settlement identify a return on equity for DSIC computation purposes.<sup>48</sup> UGI Gas Statement in Support at 8.

I&E notes that it did not submit testimony regarding the DSIC calculation return on equity. However, I&E recognizes that 66 Pa. C.S. § 1357(b)(3) provides in pertinent part:

If more than two years have elapsed between the entry of a final order and the effective date of the distribution system improvement charge, the equity return rate used in the calculation shall be the equity return rate calculated by the commission in the most recent Quarterly Report on the Earnings of Jurisdictional Utilities released by the commission.

I&E therefore does not oppose this settled upon term, as stated in the Joint Petition, as a full and fair compromise that provides UGI Gas, the Joint Petitioners and the Commission with regulatory certainty and resolution of this issue, which is in the public interest. I&E Statement in Support at 11-12.

---

<sup>47</sup> Settlement ¶ 20.

<sup>48</sup> See *Pa. PUC v. UGI Utilities, Inc. – Gas Division*, Docket No. R-2015-2518438, p. 27 (Opinion and Order entered Oct. 14, 2016).

## 5. Energy Efficiency and Conservation

The overall revenue requirement assumes that the Company's proposed Energy Efficiency and Conservation (EE&C) Plan test year modifications, including the expansion of the program into the UGI Gas' Central rate district, are approved as part of this proceeding subject to the modifications discussed later in the Joint Petition. The overall revenue requirement includes annual EE&C expenditures.<sup>49</sup> I&E Statement in Support at 12.

I&E notes that, while it did not submit testimony regarding this specific issue, it shares the concerns of the interested Joint Petitioners. I&E does not oppose this settled upon term as a full and fair compromise that provides regulatory certainty and a resolution of this issue, all of which facilitates the Commission's stated preference favoring negotiated settlements as in the public interest. I&E Statement in Support at 12.

### B. Revenue Allocation/Rate Design

#### 1. In General

I&E fully supports the negotiated revenue allocation and rate design set forth in the Joint Petition as compared to UGI Gas' original proposal in its initial base rate filing. The final negotiated revenue allocations and rate design are well within the levels advanced on the evidentiary record and reflect a full and fair compromise of all revenue allocation and rate design related issues raised by the parties. I&E believes that the Settlement maintains the proper balance of the interests of all parties. Furthermore, the agreed upon Settlement revenue allocation and rate design effectively moderates the increases initially proposed by the Company and is in the public interest. I&E Statement in Support at 21.

OSBA noted that its witness Robert D. Knecht explained the purpose of a cost of service study (COSS), as follows:

---

<sup>49</sup> Settlement ¶ 21.



The most important criterion for setting regulated utility rates is the cost incurred by the utility for providing the service. To assign costs to specific customers, utilities aggregate customers into rate classes, within which the customers have similar load sizes, seasonal consumption, peak demand patterns, and other characteristics. A [COSS] is an analytical tool with which the utility's total cost (or 'revenue requirement') is allocated among each of the rate classes. These allocated costs are then used as a key input in determining the total revenues that the utility plans to recover from each rate class through tariff rates.<sup>[50]</sup>

OSBA Statement in Support at 4. OSBA Statement in Support at 4.

The Company submitted a "combined" COSS and separate COSS's for each of the three rate districts. A description of the COSS methodology is presented in the testimony of UGI Gas witness Herbert of Gannett Fleming Valuation and Rate Consultants, LLC. Mr. Knecht also presented a COSS in this proceeding.<sup>51</sup> As is typical of base rates proceedings, COSS methodology was a contentious issue.<sup>52</sup> However, the Joint Petition does not adopt any specific COSS methodology. The Joint Petition simply sets forth tables of revenue allocation by class, and customer charges by class.<sup>53</sup> The OSBA supports the Joint Petition resolution of this issue (essentially by not selecting any one COSS methodology) because the parties were able to reach a settlement on the revenue allocation among the various customer classes. OSBA Statement in Support at 4.

## 2. Billing Determinants

In its filing, UGI Gas annualized sales by developing sales and revenue adjustments reflective of projected customer counts and annual expected usage per customer as of September 30, 2020, by reviewing historic usage data and applying regression analysis techniques.<sup>54</sup> Usage per customer was projected based on a fifteen year regression analysis of actual usage and degree day information for the period from October 1, 2003 through

---

<sup>50</sup> OSBA Statement No. 1 at 5.

<sup>51</sup> See OSBA Statement No. 1 at 11-22 and Exhibit IEc-2.

<sup>52</sup> See, e.g., OSBA Statement No. 1-R at 5-9.

<sup>53</sup> See *Joint Petition*, at ¶¶ 23 and 25.

<sup>54</sup> UGI Gas St. No. 8 at 11-13.

September 30, 2018.<sup>55</sup> As part of its filing, the Company estimated a decline in usage per customer for Rates R/RT and N/NT due to the proposed EE&C Plan.<sup>56</sup> UGI Gas Statement in Support at 14-15.

I&E witness Mr. Kubas opposed the Company's use of the fifteen year regression. Instead, Mr. Kubas, while adopting the Company's regression methodology, limited his analysis to ten years of data rather than the fifteen years used by the Company.<sup>57</sup> In response, the Company argued that I&E's position defied overwhelming industry data on the trend of reduced customer usage, was selective in its choice of the period of data to be assessed, and chose a period that started from a low-use point associated with the economic recession.<sup>58</sup> UGI Gas Statement in Support at 15.

In the Settlement, the Joint Petitioners agree that the billing determinants will be based on the Company's original filing, UGI Gas Exhibit E, Proof of Revenue, except that the sales for Rate R/RT shall be increased by 1,128,518 Mcf (2 Mcf per year per Rate R/RT heating customer).<sup>59</sup> UGI Gas maintains that the agreed upon billing determinants represent a reasonable compromise between the positions taken by UGI Gas and I&E. UGI Gas Statement in Support at 15.

### 3. Revenue Allocation

UGI Gas relied upon a combined revenue requirement model, rather than a class cost of service study to allocate its proposed total jurisdictional revenue to each of the retail customer classes.<sup>60</sup> UGI Gas, I&E, OCA, and OSBA all presented evidence regarding revenue allocation, and each of these Parties had a different proposal for how to allocate the revenue increase to the customer classes, as well as different proposals regarding how to scale back any reduction to the proposed increase. UGI Gas proposed to move all rate classes for its three

---

<sup>55</sup> UGI Gas St. No. 8 at 11-13; UGI Gas Ex. DEL-3(c).

<sup>56</sup> UGI Gas St. No. 8 at 14-15.

<sup>57</sup> I&E St. No. 3 at 30.

<sup>58</sup> UGI Gas St. No. 8-R at 1-10.

<sup>59</sup> Settlement ¶ 22.

<sup>60</sup> UGI Gas St. No. 8 at 5-6; UGI Gas Exs. D, D-1, and D-2.

districts to unified rates, and on an overall class basis move closer to the overall system rate of return, consistent with the Commonwealth Court’s decision in *Lloyd v. Pa. Pub. Util. Comm’n.*, 904 A.2d 1010 (Pa. Cmwlth. 2006) (“*Lloyd*”) and prior appellate court precedent regarding revenue allocation. UGI Gas Statement in Support at 15-16.

OCA and OSBA took differing positions on how the revenue increase should be allocated to the various classes.<sup>61</sup> Despite these differences, the Joint Petitioners were able to reach a full settlement on this issue. As a result of numerous settlement discussions, the following unanimous revenue allocation at the settled revenue requirement increase has been agreed upon:<sup>62</sup>

<b>Class</b>	<b>Revenue Allocation (\$ million)</b>
<b>Rate R/RT</b>	<b>\$ 23.02</b>
<b>Rate N/NT</b>	<b>\$ 4.85</b>
<b>Rate DS</b>	<b>\$ 0.49</b>
<b>Rate LFD</b>	<b>\$ 0.79</b>
<b>Rate XD</b>	<b>\$ 0.95</b>
<b>Rate IS</b>	<b>\$ (0.10)</b>
<b>Total</b>	<b>\$ 30.00</b>

The rate impact of the settled revenue allocation on Residential Heating customers will be as follows:

- For former UGI South Rate District Customers, under the Settlement Rates the bill for a typical Residential Heating customer that uses 64.0 Ccf per month will increase by \$8.31 per month, from \$63.81 to \$72.11 (or 13.0%), including purchased gas costs and other surcharges. In comparison, in the Company's proposed filing, the bill for a typical Residential Heating customer would have increased by \$10.48 per month from \$62.45 to \$72.93 (or 16.8%), including purchased gas costs and other surcharges.
- For former UGI North Rate District Customers, under the Settlement Rates, the bill for a typical Residential Heating customer that uses 92.3 Ccf per month will increase by \$0.08 per month, from \$91.13 to \$91.22 (or 0.1%), including purchased gas costs and other surcharges.

<sup>61</sup> OCA St. No. 3 at 30; OSBA St. No. 1 at 20, 22-25.

<sup>62</sup> Settlement ¶ 23.

In comparison, in the Company's proposed filing, the bill for a typical Residential Heating customer would have increased by \$7.65 per month from \$89.72 to \$97.37 (or 8.5%), including purchased gas costs and other surcharges.

- For former UGI Central Rate District Customers, under the Settlement Rates, the bill for a typical Residential Heating customer that uses 79.0 Ccf per month will decrease by \$15.69 per month, from \$95.39 to \$79.70 (or -16.5%), including purchased gas costs and other surcharges. In comparison, in the Company's proposed filing, the bill for a typical Residential Heating customer would have decreased by \$7.77 per month from \$93.68 to \$85.91 (or -8.3%), including purchased gas costs and other surcharges.

The rate impact of the settled revenue allocation on UGI Commercial Heating Customers will be as follows:

- For Former UGI South Rate District Customers, under the Settlement Rates, the bill for a typical Commercial Heating customer that uses 27.1 Mcf per month will increase by \$3.77 per month, from \$246.63 to \$250.40 (or 1.5%), including purchased gas costs and other surcharges. In comparison, in the Company's proposed filing, the bill for a typical Commercial Heating customer would have increased by \$3.61 per month from \$246.63 to \$250.24 (or 1.5%), including purchased gas costs and other surcharges.
- For Former UGI North Rate District Customers, under the Settlement Rates, the bill for a typical Commercial Heating customer that uses 31.2 Mcf per month will increase by \$11.97 per month, from \$241.11 to \$253.08 (or 5.0%), including purchased gas costs and other surcharges. In comparison, in the Company's proposed filing, the bill for a typical Commercial Heating customer would have increased by \$41.89 per month from \$241.11 to \$283.01 (or 17.4%), including purchased gas costs and other surcharges.
- For Former UGI Central Rate District Customers, under the Settlement Rates, the bill for a typical Commercial Heating customer that uses 28.2 Mcf per month will increase by \$3.66 per month, from \$235.90 to \$239.56 (or 1.6%), including purchased gas costs and other surcharges. In comparison, in the Company's proposed filing, the bill for a typical Commercial Heating customer would have increased by \$23.59 per month from \$235.90 to \$259.50 (or 10.0%), including purchased gas costs and other surcharges.

Lastly, the rate impact of the settled revenue allocation on UGI Industrial Customers will be as follows:

- For Former UGI South Rate District Customers, under the Settlement Rates, the bill for a typical Industrial customer that uses 58.5 Mcf per month will decrease by \$0.79 per month, from \$514.50 to \$513.71 (or -0.2%), including purchased gas costs and other surcharges. In comparison, in the Company's proposed filing, the bill for a typical Industrial customer would have decreased by \$16.81 per month from \$514.50 to \$497.69 (or -3.3%), including purchased gas costs and other surcharges.
- For Former UGI North Rate District Customers, under the Settlement Rates, the bill for a typical Industrial customer that uses 88.1 Mcf per month will increase by \$51.59 per month, from \$619.90 to \$671.50 (or 8.3%), including purchased gas costs and other surcharges. In comparison, in the Company's proposed filing, the bill for a typical Industrial customer would have increased by \$111.44 per month from \$619.90 to \$731.35 (or 18.0%), including purchased gas costs and other surcharges.
- For Former UGI Central Rate District Customers, under the Settlement Rates, the bill for a typical Industrial customer that uses 214.7 Mcf per month will increase by \$74.95 per month, from \$1,591.52 to \$1,666.47 (or 4.7%), including purchased gas costs and other surcharges. In comparison, in the Company's proposed filing, the bill for a typical Industrial customer would have increased by \$137.38 per month from \$1,591.52 to \$1,728.90 (or 8.6%), including purchased gas costs and other surcharges.

UGI Gas Statement in Support at 16; Attachment A to UGI Gas Statement in Support.

The resolution of the revenue allocation issue required significant effort and compromise by the Parties that submitted testimony on revenue allocation issues. The revenue allocation under the Settlement moves all rate classes to or toward uniform rates. Given the complexity of trying to unify rate classes and move each class toward the overall system rate of return, UGI Gas believes that the revenue allocation under the Settlement is fully consistent with the Commonwealth Court's decision in *Lloyd* and prior appellate court precedent regarding revenue allocation. UGI Gas Statement in Support at 16.

In considering the *Lloyd* decision, UGI Gas maintains that it is important to recognize that *Lloyd* did not overturn prior judicial precedent with regard to revenue allocation and the applicability of cost of service studies. When allocating revenues to the rate classes, the Commission is not required to adopt a single cost of service study or strictly allocate revenues according to the study's results. In *Executone of Philadelphia, Inc. v. Pa. Pub. Util. Comm'n*, 415 A.2d 445, 448 (Pa. Cmwlth. 1980), the Court stated as follows:

[T]here is no single correct cost study or methodology that can be used to answer all questions pertaining to costs; there are only appropriate and inappropriate cost analyses depending upon the type of service under study and the management and regulatory decision in question.

Likewise, in *Peoples Natural Gas Co. v. Pa. Pub. Util. Comm'n*, 409 A.2d 446, 456 (Pa. Cmwlth. 1979), the Court stated as follows with respect to rate design:

. . . there is no set formula for determining proper ratios among the rates of different customer classes. *Natona Mills v. Pennsylvania Public Utility Commission*, 179 Pa.Super. 263, 116 A.2d 876 (1955). What is reasonable under the circumstances, the proper difference among rate classes, is an administrative question for the commission to decide. This court's scope of review is limited.

UGI Gas Statement in Support at 17.

UGI Gas further notes that the Commission has broad discretion in establishing a rate structure. In *Peoples*, the Court also stated:

It is well settled that the establishment of a rate structure is an administrative function peculiarly within the expertise of the Commission. *Pittsburgh v. Pennsylvania Public Utility Commission*, 78 A.2d 35 (1951). Further, this court has continually recognized that the findings of the Commission, if supported by competent evidence, will not be disturbed. *United States Steel Corp. v. Pennsylvania Public Utility Commission*, 390 A.2d 865 (1978); *Philadelphia Suburban Transportation Co. v. Pennsylvania Public Utility Commission*, 92-94, 281 A.2d 179, 185 (1971).

*Peoples*, 409 A.2d at 456. UGI Gas Statement in Support at 17.

As *Lloyd* and the other cases cited above demonstrate, the Commission retains considerable discretion in designing rates, is not required to follow any particular cost of service study, and can consider other factors, including gradualism and the benefit of having unified distribution rates, in designing just and reasonable rates, as long as cost of service is the primary guiding factor. The agreed-upon revenue allocation under the Settlement provides movement towards cost of service for all rate classes under UGI Gas' class cost of service study. As such, UGI Gas submits that the Settlement's proposed revenue allocation is fully consistent with the *Lloyd* decision and other relevant precedent regarding revenue allocation. UGI Gas Statement in Support at 18.

I&E submitted extensive testimony regarding revenue allocation/rate design including the billing determinants, rate class revenue allocation, uniform distribution rates and riders, and monthly customer charges.<sup>63</sup> I&E expressed concerns that UGI Gas' proposed rate design and revenue allocation would violate the ratemaking concept of gradualism because the proposed rate reductions for some rates would have caused greater and unreasonable increases for other rates.<sup>64</sup> In consideration of all of the testimony presented and the various positions presented by the Joint Petitioners, I&E supports the revenue allocation and rate design settlement terms as stated in the Joint Petition as a full and fair compromise that provides UGI Gas, the Joint Petitioners, affected ratepayers, and the Commission with regulatory certainty and resolution of the revenue allocation/rate design issue, all of which is in the public interest. I&E Statement in Support at 15.

OCA notes that the Settlement provides that approximately \$23.02 million of the rate increase will be allocated to residential customers.<sup>65</sup> The agreed upon revenue allocation reflects a compromise and does not endorse any particular cost of service study. Based on the OCA's review of the cost of service studies presented in this proceeding and the varying allocation proposals presented by other parties, the OCA submits that the Settlement is within the range of reasonable outcomes that would result from the full litigation of this case. In addition,

---

<sup>63</sup> I&E St. No. 3 at 64-82; I&E Exh. No. 3, Schs. 4, 15-19; I&E St. No. 3-SR at 63-80; I&E Exh. No. 3 SR, Schs. 2-3.

<sup>64</sup> I&E St. No. 3-SR at 71.

<sup>65</sup> Settlement ¶ 23.

the Settlement is consistent with the objective of moving rate classes toward the system average rate of return. The OCA submits that the revenue allocation agreed to in the Settlement is reasonable and, when considered along with the other important provisions contained in the proposed Settlement, yields a result that is in the public interest. OCA Statement in Support at 5 6.

OSBA had some initial concerns regarding revenue allocation in this matter.

OSBA witness Knecht summarized the issue of revenue allocation, as follows:

Revenue allocation is the assignment of the dollar net increase or decrease to each of the Company's rate classes in a base rate proceeding. In contrast, *rate design* determines how the allocated revenue is recovered from individual ratepayers within each class. From a cost recovery standpoint, revenue allocation addresses *inter-class* cross-subsidization issues, while rate design addresses *intra-class* cross-subsidization issues.<sup>[66]</sup>

OSBA Statement in Support at 5.

Mr. Knecht created his own COSS in this proceeding. Mr. Knecht stated the resulting revenue allocation from his COSS, as follows:<sup>67</sup>

Table IEc-4 below shows the class rates of return at current rates, as well as the dollar cross-subsidy if an across-the-board rate increase were imposed. As shown, the interruptible class has a negative rate of return, even with the modifications to the demand allocation factor described in the previous section. In addition, the Residential class is being heavily subsidized. Because the Residential class represents a large share of distribution costs, the dollar value of the cross-subsidy is relatively large. On a percentage basis, however, the subsidy to the IS customers is larger. Conversely, the N/NT, DS, LFD and XD classes all provide significant cross-subsidies to the R/RT and IS classes.

---

<sup>66</sup> OSBA Statement No. 1 at 23 (emphasis in original).

<sup>67</sup> OSBA Statement No. 1 at 25.



<b>Table IEC-4 Implications of IEC CSAS for Revenue Allocation</b>		
	<b>Rate of Return Present Rates</b>	<b>Cross-Subsidy* (\$mm)</b>
R/RT	3.1%	\$69.2
N/NT	8.7%	(\$13.8)
DS	14.3%	(\$12.0)
LFD	17.9%	\$(16.5)
XD	17.9%	(\$14.4)
IS	26.3%	(\$12.4)
System	6.6%	--
*A positive cross-subsidy value indicates the class is being subsidized; a negative value indicates it is providing the subsidy. Source: Exhibit IEC-2		

OSBA Statement in Support at 5-6.

Consequently, the OSBA had the following revenue allocation recommendations. First, reduce the cross-subsidy provided to the residential R/RT class. In the interest of gradualism, the OSBA would assign a 1.5 times system average increase to the R/RT class.<sup>68</sup> Second, for the XD and IS rate classes, Mr. Knecht's COSS shows significant over-recovery of costs. However, UGI Gas proposed small changes to those rates, which is acceptable to the OSBA.<sup>69</sup> Third, the remaining increase is shared among the N/NT, DS, and LFD classes. The OSBA would assign small increases to the DS and LFD classes, and recover the balance from the N/NT class.<sup>70</sup> OSBA Statement in Support at 6.

OSBA maintains that the Joint Petition accomplishes its recommendations. Specifically, the R/RT class receives approximately 77% of the revenue increase, thereby reducing the subsidy previously enjoyed by that rate class. While strict adherence to the standard of allocated cost would have demanded a higher increase from the R/RT class under any cost allocation study filed in this proceeding, the rules of gradualism espoused by the Company, OCA, and OSBA witnesses served to limit the increase, in both litigation and settlement positions. Rate XD does not receive either a rate increase or decrease. Finally, rate classes

<sup>68</sup> *Id.* at 25-26.

<sup>69</sup> *Id.* at 26.

<sup>70</sup> *Id.*

N/NT, DS, and LFD receive significantly reduced increases, thereby lessening the subsidies provided by these rate classes. Consequently, the OSBA supports the revenue allocation proposal set forth in the Joint Petition.<sup>71</sup> OSBA Statement in Support at 7-8.

#### 4. Uniform Distribution Rates and Riders

The primary objective of UGI Gas' proposed rate design was to develop rate schedules that would produce the requested revenues when applied to forecasted conditions for the FPFTY. In its filing, UGI Gas proposed to unify rate classes across the three rate districts, and where reasonable, to continue movement of each customer class as a whole toward distribution rates that are more reflective of how costs are incurred and to be competitive with prices of competing alternate-energy sources, including physical bypass of UGI Gas' system.<sup>72</sup> The rate design proposed for each Rate Schedule is summarized in the direct testimony of UGI witness Lahoff.<sup>73</sup> UGI Gas Statement in Support at 18.

Pursuant to the *Joint Application of UGI Utilities, Inc., UGI Penn Natural Gas, Inc., and UGI Central Penn Gas, Inc.*<sup>74</sup> (hereinafter referred to as the "Merger"), which was approved on September 20, 2018, UGI Gas was permitted to merge its three pre-existing Natural Gas Distribution Companies (NGDCs) into a single NGDC. The Merger was completed on October 1, 2018, and UGI Gas commenced operations under the approved three rate district structure,<sup>75</sup> for UGI South Rate District, UGI North Rate District and UGI Central Rate District.

---

<sup>71</sup> Settlement ¶ 23.

<sup>72</sup> UGI Gas St. No. 8 at 24.

<sup>73</sup> *Id.* at 24-35.

<sup>74</sup> See *Joint Application of UGI Utilities, Inc., UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc. for All of the Necessary Authority, Approvals, and Certificates of Public Convenience for (1) an Agreement and Plan of Merger; (2) the Merger of UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc. into UGI Utilities, Inc.; (3) the initiation by UGI Utilities, Inc. of natural gas service in all territory in this Commonwealth where UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc. do or may provide natural gas service; (4) the abandonment by UGI Penn Natural Gas, Inc. of all natural gas service in this Commonwealth; (5) the abandonment by UGI Central Penn Gas, Inc. of all natural gas service in this Commonwealth; (6) the adoption by UGI Utilities, Inc. of UGI Penn Natural Gas, Inc.'s and UGI Central Penn Gas, Inc.'s Existing Tariffs and their Application within New Service and Rate Districts of UGI Utilities, Inc. Corresponding to their Existing Service Territories as UGI North and UGI Central, respectively; (7) the adoption by UGI Utilities, Inc. of its Existing Tariff to be applied to a New UGI South Service and Rate District; (8) Where Necessary, Associated Affiliated Interest Agreements; and (9) any Other Approvals Necessary to Complete the Contemplated Transaction*, Docket Nos. A-2018-3000381, A 2018-3000382 and A-2018-3000383 (Opinion and Order entered September 20, 2018).

<sup>75</sup> See Recommended Decision at 7-9.

The Merger did not impact the rates of the three rate districts, and the Settlement agreed to in that proceeding indicated that the issue of unified rates should be addressed in a future base rate proceeding. UGI Gas Statement in Support at 18-19.

As part of this proceeding, UGI Gas proposed to unify the rates in each rate class for all three districts. The Company applied a “two times” standard under which (1) no rate district would receive more than two times the system average increase, and (2) no rate class within a district would receive more than two times the district average increase (for any rate district with a proposed net increase in total).<sup>76</sup> As explained in UGI Gas witness Lahoff’s testimony, the Company proposed to establish uniform rates and move each rate class an equal percentage towards the system average return.<sup>77</sup> A significant portion of the larger increases for some rate classes were the product of the below system average return of those classes and rate districts at present rates and was not solely due to the establishment of uniform rates.<sup>78</sup> UGI Gas Statement in Support at 19.

I&E, OCA, and OSBA raised concerns regarding the degree of movement of certain rate classes towards uniform intra-class rates.<sup>79</sup> In rebuttal, UGI Gas addressed the concerns about the degree of movement of the different rate classes, as well as the possibility of using a two-step process to reach uniform rates.<sup>80</sup> UGI Gas Statement in Support at 19-20.

The Joint Petitioners agree that UGI Gas’ proposal to move all rate classes to uniform distribution and purchased gas cost (PGC) rates on the effective date of new rates established in this proceeding is accepted in most respects, provided, however, that for Rate N/NT and Rate DS, uniform distribution rates will be achieved in two steps.<sup>81</sup> UGI Gas maintains that this provision of the Settlement is in the public interest because it produces significant gains in administrative efficiency, in the clarity of the Company’s policies that are applicable to its customers, and allows for uniform intra-class rates for the vast majority of the

---

<sup>76</sup> UGI Gas St. No. 1 at 17-20.

<sup>77</sup> UGI Gas St. No. 8, Table 4.

<sup>78</sup> UGI Gas St. No. 1 at 18.

<sup>79</sup> I&E St. No. 3 at 64-82; OCA St. No. 3 at 28-37; OSBA St. No. 1 at 23-30.

<sup>80</sup> UGI Gas St. No. 8-R at 17-23.

<sup>81</sup> Settlement ¶ 24.

Company's customers while mitigating the impact of rate shock. UGI Gas Statement in Support at 20.

For Rates N/NT and DS, Step 1 of the two-step process will begin with the effective date of new rates, and Step 2 will be made effective with new rates established in the Company's next general rate proceeding under 66 Pa. C.S. § 1308(d).<sup>82</sup> For Step 1, the Rate N/NT North rate district rates will be increased by twelve (12) percent and Rate DS North rate district rates will be increased by twenty (20) percent, with Rate N/NT and Rate DS South and Central rate districts being set uniformly by class to recover the remaining N/NT and DS revenue requirements, respectively. For Step 2, the parties reserve their rights in a future rate case to oppose the Company's proposed rates and to propose alternative rates.<sup>83</sup> UGI Gas Statement in Support at 20.

UGI Gas believes that this two-step approach provides a path to fully unified rates for all of the Company's customers, while recognizing that in some instances, maintaining intra-class rate differences can be reasonable to serve the principle of gradualism. In addition to the consolidation of distribution rates, PGC rate consolidation will occur with the effective date of the new PGC year, December 1, 2019. UGI Gas Statement in Support at 20.

I&E expressed concerns regarding the Company's desire to move all rate classes to uniform distribution and PGC rates. I&E was concerned because the Company's initial proposal increases the R/RT customer charge across all three rate districts at the same time it decreases the R/RT usage rates for two of the rate districts.<sup>84</sup> Additionally, the PGC rate in one of the rate districts was proposed to decrease.<sup>85</sup> The end result would have been that the total bill for average R/RT customers would increase for some customers and decrease for other customers.<sup>86</sup> Because I&E believed these results would be unreasonable, I&E recommended that while it might be possible to consolidate the residential customer charges in one proceeding, the

---

<sup>82</sup> *Id.*

<sup>83</sup> *Id.*

<sup>84</sup> I&E St. No. 3 at 66-76; I&E St. No. 3-SR at 63-80.

<sup>85</sup> I&E St. No. 3 at 68-71.

<sup>86</sup> *Id.* at 69-71.

usage rates should be consolidated incrementally over more than one base rate case.<sup>87</sup> I&E expressed concerns that UGI Gas' proposed rate design and revenue allocation would violate the ratemaking concept of gradualism because the proposed rate reductions for some rates would have caused greater and unreasonable increases for other rates.<sup>88</sup> I&E Statement in Support at 15.

In consideration of all of the testimony presented and the various positions presented by the Joint Petitioners, I&E supports the revenue allocation and rate design settlement terms as stated in the Joint Petition as a full and fair compromise that provides UGI Gas, the Joint Petitioners, affected ratepayers, and the Commission with regulatory certainty and resolution of the revenue allocation/rate design issue, all of which is in the public interest. I&E Statement in Support at 15-16.

The OCA notes that it did not oppose UGI Gas' proposal to adopt uniform rates.<sup>89</sup> Under the Settlement, the Company's proposal to move all rate classes to uniform distribution and purchased gas cost rates on the effective date of new rates established in this proceeding is accepted, except for Rate N/NT and Rate DS, which will be moved to uniform distribution rates in two steps.<sup>90</sup> Further, PGC rates will be consolidated as of the effective date of the new PGC year on December 1, 2019.<sup>91</sup> The OCA submits that this term represents a reasonable compromise that is in the public interest. OCA Statement in Support at 6.

OSBA noted its concerns regarding UGI Gas' proposal to harmonize rates. OSBA witness Knecht explained the implication of the Company's rate harmonization proposal, as follows:

It is simply not reasonable to achieve rate harmony in a single proceeding. The extremely large rate differences that currently exist between rate districts are too large to eliminate in one step. Moreover, reducing the overall level of increase will not make rate

---

<sup>87</sup> *Id.* at 70-76.

<sup>88</sup> I&E St. No. 3-SR at 71.

<sup>89</sup> OCA St. No. 3 at 35-36.

<sup>90</sup> Settlement ¶ 24.

<sup>91</sup> *Id.*

harmonization any more palatable, since it is the rate differentials between districts that must be addressed.<sup>92</sup>

Mr. Knecht concluded:

The revenue allocation and rate harmonization goal for this proceeding should therefore be to make reasonable progress toward harmonizing rates, while simultaneously making reasonable progress toward moving rates into line with allocated costs.<sup>93</sup>

OSBA Statement in Support at 9.

OSBA notes that the Joint Petition follows the recommendation of Mr. Knecht. Specifically, the Joint Petition proposes a multi-step rate harmonization process for the N/NT North District rates and DS South and Central District rates.<sup>94</sup> The Joint Petition proposes that these rate classes receive a limited rate increase, with further rate increases to be addressed in future UGI Gas base rates proceedings. OSBA believes that this will significantly reduce the rate impact upon small commercial and industrial customers in those rate districts that would otherwise have been caused by the full rate harmonization proposed by the Company. The OSBA supports the resolution of the rate harmonization issue as set forth in the Joint Petition, as it both comports with the testimony of Mr. Knecht and obeys the principle of rate gradualism. OSBA Statement in Support at 10.

## 5. Monthly Customer Charges

### a. Rate R/RT Customer Charge

UGI Gas proposed a Rate R customer-class customer charge of \$19.00 per month for all rate districts.<sup>95</sup> This is compared to the current charge of \$13.25 per month in the UGI Gas North Rate District, \$14.60 per month in the UGI Gas Central Rate District and \$11.75 per month in the UGI Gas South Rate District.<sup>96</sup> I&E recommended that the customer charge for the

---

<sup>92</sup> OSBA Statement No. 1 at 29.

<sup>93</sup> *Id.*

<sup>94</sup> Settlement ¶ 24.

<sup>95</sup> UGI Gas St. No. 8 at 26.

<sup>96</sup> *Id.*

Rate R customer group be scaled back rather than the usage charge based on the determined revenue requirement.<sup>97</sup> OCA, CAUSE-PA, and CEO all opposed UGI Gas’ proposal to increase the residential monthly charge. The OCA argued that the Company’s proposed Rate R customer charge ignores the ratemaking concept of gradualism, and CAUSE-PA and CEO argued that the Company’s proposal hurts low-volume and low-income customers as well as energy conservation.<sup>98</sup> UGI Gas Statement in Support at 21.

In its response, UGI Gas provided extensive support for its proposal from a cost of service perspective.<sup>99</sup> UGI Gas also explained why an increase in the customer charge will not negatively impact conservation.<sup>100</sup> UGI Gas further stressed that the majority of the total bill will continue to be usage based even if UGI Gas’ proposed residential customer charge is adopted.<sup>101</sup> UGI Gas Statement in Support at 21.

The Joint Petitioners were able to resolve this issue through settlement by agreeing to a Rate R/RT customer charge of \$14.60 per month.<sup>102</sup> The Company believes this charge represents a fair compromise among the competing proposals of the various parties. UGI Gas Statement in Support at 21.

OCA witness Mierzwa testified that the existing Central Rate District customer charge of \$14.60 should be adopted for all rate districts because this would “provide for a residential customer charge that is consistent with the charges of other Pennsylvania NGDCs, provides for gradualism, and better promotes energy conservation than the charge proposed by the Company.”<sup>103</sup> The Settlement accepts the OCA’s recommendation and provides for a residential customer charge of \$14.60 for all rate districts, which is \$4.40 less than UGI Gas’ originally proposed \$19.00 customer charge. The OCA submits that this customer charge is reasonable and in the public interest. OCA Statement in Support at 6-7.

---

<sup>97</sup> I&E St. No. 3 at 88-89.

<sup>98</sup> OCA St. No. 3 at 31-32; *see generally* OCA St. No. 4, CAUSE-PA St. No. 1, CEO St. No. 1.

<sup>99</sup> UGI Gas St. No. 8-R at 17-23.

<sup>100</sup> *Id.* at 22.

<sup>101</sup> *Id.*

<sup>102</sup> Settlement ¶ 25.

<sup>103</sup> OCA St. No. 3 at 34.

CAUSE-PA notes that the residential (fixed) customer charge of \$14.60 for all three rate districts, which is consistent with the current fixed charge for UGI's Central rate district, represents a moderate increase for UGI North (currently at \$13.25) and UGI South (Currently at \$11.75). UGI Gas' initial proposal of a customer charge of \$19.00 would have amounted to a 43.4% increase for UGI North, a 30.1% increase for UGI Central, and a 61.7% increase for UGI South.<sup>104</sup> CAUSE-PA witness Miller explained in his direct testimony that high fixed charges undermine the ability for consumers to control costs through energy efficiency, conservation, and consumption reduction efforts.<sup>105</sup> He further explained that this disproportionately affects low-income customers who rely on the ability to offset high bills through careful conservation and usage reduction, and that it undermines the explicit goal of LIURP to produce appreciable bill savings for low income consumers over the long term.<sup>106</sup> Limiting the amount of the fixed charge increase will preserve the ability of low income households to meaningfully reduce their consumption to control their utility costs and, in turn, other universal service costs.<sup>107</sup> CAUSE-PA Statement in Support at 5.

For its part, CEO notes its support for the Joint Petition and believes that it is in compliance with the applicable laws and regulations and serves the public interest because the Company proposed in its initial filing to increase its fixed monthly residential customer charge from \$19.00. CEO believes that such an increase in the fixed charge would have lessened the motive and ability of the residential class to conserve energy and reduce their monthly bill. The Settlement lessens such a negative impact in that it provides that the fixed monthly residential customer charge will be set at \$14.60. CEO Statement in Support at 1-2.

b. Rate N/NT Customer Charge

UGI Gas proposed a unified Rate N customer group customer charge of \$37.00 per month, as compared to the current charge of \$34.00 per month in the North Rate District, \$30.40 per month in the Central Rate District and \$16.00 per month in the South Rate District, to

---

<sup>104</sup> CAUSE-PA St. 1 at 19.

<sup>105</sup> *Id.*

<sup>106</sup> *Id.* at 19-20.

<sup>107</sup> *Id.* at 22.



better reflect the customer costs per bill of \$52.90 as identified within the cost of service study presented in UGI Gas Exhibit D.<sup>108</sup> I&E and OSBA both opposed a consolidated customer charge, in part, based on gradualism concerns.<sup>109</sup> UGI Statement in Support at 21-22.

In rebuttal testimony, the Company provided support for the unification of Rate N/NT customers in a single step.<sup>110</sup> However, in addition, UGI Gas outlined a two-step approach to unification to address the gradualism concerns raised by OSBA and I&E.<sup>111</sup> Application of the two-step approach included unifying the customer charge for Rate N/NT as part of this proceeding, and moving the distribution rates toward unification, with full unification being achieved in the second step. UGI Gas Statement in Support at 22.

In the Settlement, the Joint Petitioners agree to a Rate N/NT customer charge of \$23.50 per month.<sup>112</sup> This resolution for the Rate N/NT customer charge is a reasonable compromise of competing litigation positions and is within the range of positions taken by the parties in this proceeding. UGI Gas Statement in Support at 22.

c. Rate DS Customer Charge

UGI Gas proposed to increase the current Rate DS monthly customer charge to \$280.00 per month on a consolidated basis.<sup>113</sup> This is compared to the current charge of \$229.00 per month in the UGI Gas North Rate District, \$192.27 per month in the UGI Gas Central Rate District and \$290.00 per month in the UGI Gas South Rate District.<sup>114</sup> The proposed customer charge is also supported by the customer costs per bill for Rate DS of \$285.98 as identified within the cost of service study presented in UGI Gas Exhibit D.<sup>115</sup> Both I&E and OSBA argued that the Company's proposed rates for Rate DS conflicted with the ratemaking concept of

---

<sup>108</sup> UGI Gas St. No. 8 at 27.

<sup>109</sup> I&E St. No 3 at 85; OSBA St. No. 1 at 28-29.

<sup>110</sup> UGI Gas St. No. 8-R at 21.

<sup>111</sup> *Id.*

<sup>112</sup> Settlement ¶ 25.

<sup>113</sup> UGI Gas St. No. 8 at 27.

<sup>114</sup> *Id.*

<sup>115</sup> *Id.*

gradualism.<sup>116</sup> In rebuttal testimony, the Company provided support for its proposed customer charge for Rate DS.<sup>117</sup> UGI Gas Statement in Support at 22-23.

In the Settlement, the Joint Petitioners agreed to a Rate DS customer charge of \$260 per month.<sup>118</sup> The settlement of the Rate DS customer charge is a reasonable compromise of competing litigation positions and is within the range proposed by the Company and OSBA. UGI Gas Statement in Support at 23.

d. Rate LFD Customer Charge

UGI Gas proposed a Rate LFD monthly customer charge of \$670.00 per month.<sup>119</sup> This is compared to the current charge of \$700.00 per month in the UGI Gas North Rate District, \$480.62 per month in the UGI Gas Central Rate District and \$700.00 per month in the UGI Gas South Rate District. The proposed customer charge is also supported by the customer costs per bill for Rate LFD of \$683.45 as identified in the cost of service study presented in UGI Gas Exhibit D.<sup>120</sup> No party opposed the customer charge for Rate LFD customers. UGI Gas Statement in Support at 23.

The Joint Petitioners agree to a Rate LFD customer charge of \$670 per month as proposed by UGI Gas.<sup>121</sup> The Settlement of the Rate LFD customer charge unifies the rates across the three rate districts. UGI maintains that it is in the public interest because it is fully supported by the customer costs per bill for Rate LFD of \$683.45 as identified in the cost of service study presented in UGI Gas Exhibit D. UGI Gas Statement in Support at 23.

---

<sup>116</sup> See I&E St. No. 3 at 76-82; OSBA St. No. 1 at 23-30.

<sup>117</sup> UGI Gas St. No. 8-R at 21.

<sup>118</sup> Settlement ¶ 25.

<sup>119</sup> UGI Gas St. No. 8 at 28.

<sup>120</sup> *Id.*

<sup>121</sup> Settlement ¶ 25.

## 6. Interruptible Revenue

UGI Gas notes that, unlike some other utility services, natural gas is subject to competition from alternative fuels, direct customer bypass and locational competition, and there are no uses for natural gas for which there are no other viable energy alternatives. UGI Gas currently provides interruptible gas service to customers under contracts voluntarily entered into that have rates based on the alternatives available to such customers, whether that is an alternate fuel option, an alternative natural gas solution, *i.e.* physical bypass, or a locational alternative, *i.e.* moving production to a different facility with lower energy costs. UGI Gas' three rate districts currently provide interruptible gas service to 380 customers under negotiated contracts that have rates based on the available alternatives.<sup>122</sup> UGI Gas Statement in Support at 23-24.

In this proceeding, UGI Gas proposed to use a portion of the interruptible revenues (\$14.9 million) consistent with its past practice, as an offset to the revenue requirement passed on to other customer classes.<sup>123</sup> The remaining portion of the interruptible revenues would be utilized in two complementary programs: the Extension and Expansion Fund (EEF) and the Interruptible Sharing Mechanism (ISM). The EEF was proposed to support the continued extension and expansion of natural gas into unserved and underserved areas in and near the UGI Gas service territory, and would be funded with 20% of FPFTY interruptible revenues per year, or at an initial level of \$4.9 million per year.<sup>124</sup> Amounts from this EEF would then be utilized to reduce the otherwise applicable GET Gas surcharge paid by participating customers, and as funding for certain "last mile" extension and expansion projects.<sup>125</sup> The ISM would create an incentive sharing mechanism for interruptible revenues which allows the Company to retain 20% of FPFTY interruptible revenues, or \$4.9 million annually, to maximize interruptible margins, because all customers stand to benefit by the creation of a substantial, sustainable revenue amount that provides an offset to the revenue requirement established for other classes in future rate case proceedings and also maximizes the

---

<sup>122</sup> UGI Gas St. No. 1 at 24-25.

<sup>123</sup> UGI Gas St. No. 1 at 24-25; UGI Gas St. No. 8 at 16-17.

<sup>124</sup> UGI Gas St. No. 1 at 25.

<sup>125</sup> *Id.* at 25-26.

benefits that interruptible revenues can provide to otherwise delay the need for rate relief.<sup>126</sup> Under the Company's proposed treatment for interruptible revenues, UGI Gas would be at-risk if the actual level of interruptible revenue falls below the anticipated amount, and would retain any excess amount and could use it for capital projects to provide service to customers or use it to offset inflation and attrition between rate cases, and thereby avoid or delay future rate cases.<sup>127</sup> UGI Gas Statement in Support at 24-25.

I&E, OCA, and OSBA opposed the Company's interruptible revenue proposal.<sup>128</sup> All three organizations proposed that the EEF and the ISM should not be approved, and that all of the interruptible revenues should be reflected in rates to reduce the overall revenue requirement.<sup>129</sup> In its rebuttal testimony, the Company provided an extensive response.<sup>130</sup> UGI Gas Statement in Support at 25.

In the Settlement, the Company agreed to include a total of \$24.602 million of interruptible revenue in its Proof of Revenues, rather than the \$14.9 million that it had included in its filing.<sup>131</sup> Further, the Company agreed to withdraw its proposed EEF and ISM.<sup>132</sup> UGI Gas maintains that this provision provides additional revenues that offset the increase that would otherwise be applied to other customer classes, and represents a significant compromise by the Company in order to reach a settlement of all issues. UGI Gas Statement in Support at 25.

I&E submitted extensive testimony regarding the proposed ISM and the EEF.<sup>133</sup> I&E recommended that both the ISM and the EEF proposals be denied, reasoning that there was no valid reason or need for either the ISM or the EEF, and that establishing an ISM and an EEF that use ratepayer money to potentially add customers or sales is unreasonable.<sup>134</sup> Additionally, I&E argued that the ISM and the EEF should also be rejected because they lack goals or

---

<sup>126</sup> *Id.* at 27.

<sup>127</sup> *Id.* at 25.

<sup>128</sup> I&E St. No. 3 at 53-63; OCA St. No. 3 at 37-39; OSBA St. No. 1 at 5-10.

<sup>129</sup> I&E St. No. 3 at 53-63; OCA St. No. 3 at 37-39; OSBA St. No. 1 at 5-10.

<sup>130</sup> UGI Gas St. No. 1-R at 11-24.

<sup>131</sup> Settlement ¶ 26.

<sup>132</sup> *Id.*

<sup>133</sup> I&E St. No. 3 at 53-64; I&E Exh. 3, Schs. 11-13; I&E St. No. 3-SR at 47-61.

<sup>134</sup> I&E St. No. 3 at 55-57, 60-62.

objective metrics to measure their success.<sup>135</sup> Furthermore, I&E rejected the proposition that the Company is requesting existing ratepayers fund the Company's desire to expand its customer base and increase revenue.<sup>136</sup> I&E Statement in Support at 16.

In consideration of all of the testimony presented and the various positions presented by the Joint Petitioners, I&E supports the withdrawal of the ISM and the EEF as a full and fair compromise that provides UGI Gas, the Joint Petitioners, affected ratepayers, and the Commission with regulatory certainty and resolution of these proposals, all of which is in the public interest. I&E Statement in Support at 16-17.

OCA witness Mierzwa opposed UGI Gas' interruptible revenue proposals. Mr. Mierzwa posited that the Company's shareholders currently provide funding to support the extension and expansion of natural gas service and should continue to do so, rather than requiring current ratepayers to provide additional funding as would be the case if the EEF is approved. Mr. Mierzwa also opposed the interruptible sharing mechanism because it would allow the Company to earn a return exceeding that authorized by the Commission, and because the current ratemaking treatment of interruptible revenues already maximizes the Company's incentive to increase interruptible revenues.<sup>137</sup> Accordingly, the OCA rejected UGI Gas' interruptible revenue proposals. OCA supports the Settlement as it accepts the OCA's position by withdrawing the proposed EEF and ISM, and also reflects the full amount of interruptible revenue in the Proof of Revenue.<sup>138</sup> OCA Statement in Support at 7-8.

The OSBA flatly rejected the UGI Gas revenue sharing proposal. Mr. Knecht testified to a list of reasons why the Company's proposal was unjust, unreasonable, and unnecessary,<sup>139</sup> including:

- The Company's proposal would provide revenue to fund the GET Gas program from existing interruptible customers. However, the GET Gas program was not designed to require

---

<sup>135</sup> *Id.* at 55, 61.

<sup>136</sup> *Id.* at 55-58, 60-63.

<sup>137</sup> OCA St. No. 3 at 38; OCA St. No. 3-S at 1-4.

<sup>138</sup> Settlement ¶ 26.

<sup>139</sup> *See* OSBA Statement No. 1 at 8-10.

subsidies from existing ratepayers to fund new customer attachments;

- The UGI Gas proposal would provide additional return to the Company's shareholders. Supplementary rewards from interruptible revenues would result in excessive returns to shareholders;
- The Company already has strong incentives to maximize interruptible service revenues, and has no need for any additional incentive mechanism;
- The Company is already fully recovering the costs it incurs obtaining its interruptible revenues, and has no need for an additional mechanism to recover those costs;
- The UGI Gas proposal would encourage the Company to promote interruptible service in order to maximize the proposed bonus award; and
- The proposal is unnecessary, since UGI Gas has increased its interruptible service revenues over the past three years.

OSBA Statement in Support at 2-3.

OSBA notes that the Joint Petition is fully in accordance with Mr. Knecht's testimony. Accordingly, OSBA supports the Joint Petition's resolution of this issue, as it rejects the Company's position in its entirety and specifies that current rates revenue for interruptible customers be set at \$24.602 million.<sup>140</sup> OSBA Statement in Support at 3.

## 7. GET Gas

UGI Gas proposed to extend its five-year Growth Extension Tariff (GET Gas) program. GET Gas customers pay a monthly surcharge for ten years after the initiation of natural gas service.<sup>141</sup> The Company used historical average costs for service lines and mains to project how many customers would be added each year based on the projected total investment of \$5.0 million per year per company (as this program was developed when there were three separate NGDCs) for a total investment target of \$75 million.<sup>142</sup> The GET Gas charge is currently set at a different amount for each of the Company's rate districts because they were based, in part, on the average distribution revenue for a typical conversion customer, which

---

<sup>140</sup> Settlement ¶ 26.

<sup>141</sup> UGI Gas St. No. 9 at 16.

<sup>142</sup> *Id.*

currently differs per rate district.<sup>143</sup> The Company proposed a residential GET Gas surcharge of \$21.75 per month and a commercial GET Gas surcharge of \$7.86 per month with a volumetric surcharge of \$1.07 per Mcf.<sup>144</sup> UGI Gas Statement in Support at 25-26.

I&E and OSBA recommended that the GET Gas program be terminated.<sup>145</sup> In response, UGI Gas presented an extensive case in rebuttal in support of the cost effectiveness of the GET Gas program, and the significant public benefits associated with this program.<sup>146</sup> The Company's proposal to lower the monthly surcharge is expected to provide a significant boost in the market share the program will be able to achieve over time.<sup>147</sup> However, using the imbalance produced by the upfront costs to judge the overall effectiveness of the program would understate the economics and the overall benefit of the program.<sup>148</sup> Further, the Company refuted the claims regarding the cross-subsidization of the GET Gas program.<sup>149</sup> Finally, UGI Gas presented extensive testimony addressing the analytical basis I&E used to conclude that the GET Gas program was "uneconomic".<sup>150</sup> UGI Gas Statement in Support at 26.

In the Settlement, the Joint Petitioners have agreed to extend the GET Gas pilot program for another five-year period.<sup>151</sup> As part of this extended program, UGI Gas will apply a \$29.00 monthly surcharge to all new GET Gas customers throughout its service territory.<sup>152</sup> New commercial GET Gas customers will pay a monthly surcharge of \$20.03 and a volumetric surcharge of \$1.87/Mcf.<sup>153</sup> For customers accepted by the Company before October 29, 2019 that currently have rates lower than the Settlement surcharges in this proceeding, the lower rates will remain unchanged consistent with Paragraph 21 of the settlement establishing the original GET Gas program at Docket No. P-2013-2356232 (Order entered February 20, 2014). Also as part of the extended pilot program, the Company may continue to use the GET Gas program to

---

<sup>143</sup> *Id.* at 20.

<sup>144</sup> *Id.* at 27.

<sup>145</sup> *See generally* I&E St. No. 4 and I&E St. No. 4-R; *see also* OSBA St. No. 1 at 31-32.

<sup>146</sup> UGI Gas St. No. 9-R at 12-25.

<sup>147</sup> *Id.* at 14.

<sup>148</sup> *Id.* at 14, 16-17.

<sup>149</sup> *Id.* at 15, 18.

<sup>150</sup> *Id.* at 19-25.

<sup>151</sup> Settlement ¶ 27.

<sup>152</sup> *Id.*

<sup>153</sup> *Id.*

expand into additional underserved and unserved areas of its certificated service territory except in Gas Beyond the Mains territories already determined uneconomic by the Commission.<sup>154</sup> Finally, as part of the extended pilot program, the Company will include in each of its annual reports an economic evaluation including cost, saturation and revenue projections for each GET Gas project.<sup>155</sup> UGI Gas Statement in Support at 26-27.

UGI Gas notes that the GET Gas Rider is consistent with the important public policy of expanding the availability of natural gas. The Commission's Chairman Gladys M. Brown Dutrieuille noted the positive attributes of both GET Gas as well as natural gas expansion in general:

A number of things are very clear about natural gas – Pennsylvania has an abundant supply; homeowners and businesses across the state are lining up for access; and the PUC continues to challenge utilities to help more consumers tap into this lower-cost and cleaner-burning fuel. Programs like UGI's GET Gas initiative have been strongly encouraged by the Commission, and it is a pleasure to see yet another Pennsylvania energy success story moving forward.<sup>[156]</sup>

UGI Gas Statement in Support at 27.

UGI Gas submits that this Settlement provision is in the public interest because it continues the GET Gas program, which makes access to natural gas service available at a reasonable cost to many customers who otherwise would not be able to access service. UGI Gas Statement in Support at 27.

I&E submitted extensive testimony regarding UGI Gas' proposed modifications to its GET Gas program,<sup>157</sup> and expressed concerns regarding the economic share revenue shortfall in the, as proposed, GET Gas program.<sup>158</sup> I&E noted that the \$26.4 million shortfall of

---

<sup>154</sup> *Id.*

<sup>155</sup> Settlement ¶ 27.

<sup>156</sup> UGI Gas St. No. 9-R at 10 (citing Chairman Gladys M. Brown Dutrieuille, Keynote Remarks May 11, 2015).

<sup>157</sup> I&E St. No. 4 at 2-20; I&E St. No. 2-22.

<sup>158</sup> I&E St. No. 4 at 18-21; I&E St. No. 4-SR at 21.



the Company's supported investment represents 53% of the Company's projected supported investment of \$49.6 million for its GET Gas projects and 36% of the projects total cost of \$73.0 million.<sup>159</sup> I&E argued that it was not in the public interest to place the burden of this shortfall on the Company's existing ratepayers with no equitable offset in order for UGI Gas to gain from the benefits of expanding natural gas service to new territories which would result in unjust increases to existing ratepayers.<sup>160</sup> I&E recommended that until UGI Gas mitigates the problem of cross subsidy, UGI Gas' GET Gas program should be discontinued from moving forward into new territories until the Company can develop an economically viable proposal to move forward with such an expansion.<sup>161</sup> I&E Statement in Support at 17-18.

In consideration of all of the testimony presented and the various positions presented by the Joint Petitioners, I&E supports these settled upon terms as stated in the Joint Petition as a full and fair compromise that provides UGI Gas, the Joint Petitioners, affected ratepayers, and the Commission with regulatory certainty and with a resolution of the GET Gas program issue, all of which is in the public interest. I&E Statement in Support at 18.

The OSBA had two significant concerns with the Company's GET Gas program proposals in this proceeding. First, UGI Gas proposed to add a ratepayer subsidy to the GET Gas program by redirecting a portion of interruptible service revenues. This would represent a fundamental change in the nature of the program, in that the original intent was for GET Gas revenues to hold existing ratepayers harmless to the expansion over the longer term. Second, the program has not been meeting its objectives in that market penetration has been slower than originally forecast. The risk of the Company's failure to meet its objectives lies primarily with ratepayers. OSBA Statement in Support at 10.

The Joint Petition substantially addresses the OSBA's concerns. First, as set forth above, the proposed mechanism for applying interruptible revenues as a cost offset to GET Gas is eliminated.<sup>162</sup> Moreover, the proposed GET Gas charges are considerably higher than those

---

<sup>159</sup> I&E St. No. 4-SR at 21.

<sup>160</sup> *Id.*

<sup>161</sup> I&E St. No. 4 at 20; I&E St. No. 4-SR at 21.

<sup>162</sup> Settlement ¶ 26.

originally proposed, substantially reducing the subsidy required from ratepayers. The OSBA's internal calculations indicate that the proposed GET Gas revenues will recover more than 94 percent of the incremental costs associated with the GET Gas program, limiting the required contribution from existing ratepayers. OSBA Statement in Support at 10-11.

Second, while the OSBA retains its concern that the Company will fail to meet its objectives, the GET Gas program involves a relatively long-term market penetration period (heating systems have a long life and turn over only infrequently), and it is still relatively early in the process. For that reason, the OSBA determined that continuing the pilot was not unreasonable. While ratepayers retain the economic risk of the Company's failure to meet its objectives, the OSBA is confident that the Commission will consider the Company's actual performance in this pilot when evaluating whether the GET Gas program should continue, as well as management performance and allowed rates of return in future rate proceedings. OSBA Statement in Support at 11.

#### 8. USP Rider

UGI Gas is permitted to recover costs for each of its universal service programs under its Universal Service Program (USP) Rider with an annual reconciliation for costs and recoveries. There is an offset for Customer Assistance Program (CAP) credits and pre-program arrearages for customers receiving shortfall credits that exceed the CAP customer enrollment projected in each rate district's last base rate case.<sup>163</sup> This offset reduces the Company's recovery of CAP spending above projected enrollment to account for write-offs of bad debt that would have arguably occurred if not for CAP.<sup>164</sup> UGI Gas proposed that the projected consolidated CAP enrollment to be used for the offset be 21,530 customers.<sup>165</sup> UGI Gas Statement in Support at 28.

OCA did not agree with the Company's proposal, and specifically objected to the Company's use of 21,530 customers. The OCA proposed to use 18,600 customers in the

---

<sup>163</sup> UGI Gas St. No. 10 at 13.

<sup>164</sup> *Id.*

<sup>165</sup> *Id.*

equation. OCA's witness testified that the use of 18,600 customers represented average participation for the 12 months ending February 2019 and seemed more appropriately aligned with the Company's expected CAP growth projections.<sup>166</sup> UGI Gas Statement in Support at 28.

The Joint Petitioners have agreed to accept the Company's proposed USP Rider.<sup>167</sup> However, the CAP credit offset will be applied where CAP enrollment exceeds 19,672 CAP customers rather than the Company's proposed level of 21,530.<sup>168</sup> UGI Gas maintains that the final customer enrollment number is a reasonable compromise between the positions supported by OCA and the Company. UGI Gas Statement in Support at 28.

I&E notes that it did not submit testimony regarding this specific issue. Nevertheless, I&E shares the concerns of the interested Joint Petitioners. I&E does not oppose the settled upon terms as a full and fair compromise that provides regulatory certainty and a resolution of these issues, all of which facilitates the Commission's stated preference favoring negotiated settlements as in the public interest. I&E Statement in Support at 19.

OCA notes that the Settlement reflects the agreement of the OCA and the Company in testimony regarding the level of the bad debt offset to be included in the USP Rider.<sup>169</sup> OCA witness Colton accepted the Company's proposed 9.2% bad debt offset for CAP cost recovery.<sup>170</sup> In Surrebuttal Testimony, Mr. Colton also accepted that the bad debt offset should be applied when the Company's CAP enrollment reaches 19,672 CAP customers.<sup>171</sup> OCA Statement in Support at 8.

The purpose of the bad debt offset is to reflect the "extent to which low-income customers who do not participate in CAP cause the utility to incur bad debt expense."<sup>172</sup> The Settlement achieves this goal and is also consistent with the Commission's CAP Policy

---

<sup>166</sup> OCA St. No. 4 at 21-22.

<sup>167</sup> Settlement ¶ 28.

<sup>168</sup> Settlement ¶ 28.

<sup>169</sup> The bad debt offset is to be "applied to the incremental number of CAP participants which exceeds the base number of participants experienced in the most recent period with actual, known data." OCA St. No. 4 at 20.

<sup>170</sup> OCA St. No. 4 at 5.

<sup>171</sup> OCA St. No. 4-SR at 17; *see also*, UGI St. No. 10-R at 38.

<sup>172</sup> OCA St. No. 4 at 20.

Statement regarding CAP cost recovery. The Commission’s CAP Policy Statement provides that cost recovery for universal services programs should include “both the expenses associated with operating the CAPs as well as the potential decrease of customer utility operating expenses” including bad debt.<sup>173</sup> Accordingly, the OCA maintains that the proposed bad debt offset is in the public interest and should be approved. OCA Statement in Support at 8-9.

#### 9. Tax Cuts and Jobs Act

As part of its direct case, UGI Gas proposed to flow back January through June 2018 tax savings with interest associated with the Tax Cuts and Jobs Act.<sup>174</sup> No party opposed the Company’s proposal and settlement Paragraph 29 adopts the Company’s proposal. This Settlement provision is in the public interest because the Company will continue the application of a uniform negative surcharge of -4.72% applicable to all rate classes for the return of the January through June 2018 amount, subject to interest and reconciliation mechanisms.<sup>175</sup> UGI Gas Statement in Support at 28-29.

I&E notes that it did not submit testimony regarding this specific issue. Nevertheless, I&E shares the concerns of the interested Joint Petitioners. I&E does not oppose this settled upon term in order to facilitate the Settlement as a full and fair compromise that provides regulatory certainty and a resolution of this issue, all of which facilitates the Commission’s stated preference favoring negotiated settlements as in the public interest. I&E Statement in Support at 19.

---

<sup>173</sup> 52 Pa. Code § 69.266.

<sup>174</sup> UGI Gas St. No. 11 at 4-6.

<sup>175</sup> UGI Gas St. No. 8 at 23-24.

## 10. PGC Revenue Adjustment

As part of its direct case, the Company identified two PGC errors that occurred in 2008 that were recently discovered by the Company.<sup>176</sup> The Company proposed to refund the principal and one year of interest associated with this net overcollection. Witnesses for I&E and OCA agreed that a refund would be appropriate but disagreed on the amount of interest that should be refunded.<sup>177</sup> OCA also proposed that the issue be addressed in the Company's 2019 PGC proceeding, rather than the rate case.<sup>178</sup> UGI Gas Statement in Support at 29.

The parties have agreed that this issue will be addressed in the Company's ongoing PGC proceeding at Docket No. R-2019-3009647.<sup>179</sup> Doing so will provide a timely resolution of the issue, in the same proceeding in which the principal and interest were generated. UGI Gas Statement in Support at 29.

I&E notes that it submitted testimony regarding the Company's proposed PGC revenue adjustment accepting the calculation of the net principal overcollection to be refunded but disagreed with the amount of the interest which should be refunded as well.<sup>180</sup> I&E reasoned that the interest should be applied over the entire time from when the over-collection occurred and should be refunded to customers through the PGC rate adjustment starting with the effective date of new rates.<sup>181</sup> Therefore, in consideration of all of the testimony presented and the various positions presented by the Joint Petitioners, I&E supports the decision to move this issue to the PGC rate proceeding as a full and fair compromise that provides UGI Gas, the Joint Petitioners, affected ratepayers, and the Commission with a resolution of the this issue, all of which is in the public interest. I&E Statement in Support at 20.

---

<sup>176</sup> UGI Gas St. No. 4 at 22.

<sup>177</sup> I&E St. No. 1 at 50; OCA St. No. 3 at 46.

<sup>178</sup> OCA St. No. 3 at 46.

<sup>179</sup> Settlement ¶ 30.

<sup>180</sup> I&E St. No. 1 at 49.

<sup>181</sup> *Id.*

As noted by UGI Gas, OCA took issue with the Company's method of calculating the interest due to customers.<sup>182</sup> Moreover, OCA witness Mierzwa testified that this issue should be addressed in the Company's annual PGC proceeding rather than in the base rate case.<sup>183</sup> The Settlement provides that the PGC Revenue over collection issue will be addressed in the currently pending PGC proceeding.<sup>184</sup> The OCA notes that it is a party to the PGC proceeding and will address its concerns in that case. OCA Statement in Support at 9.

#### 11. ACH/Credit Card Fee Waiver

The Company proposed to eliminate fees associated with customers who use their credit card to pay their monthly bill.<sup>185</sup> While there was some disagreement from I&E and OCA regarding the cost of the proposal,<sup>186</sup> all parties agreed that elimination of the fee was in the public interest.<sup>187</sup> As a result, the Joint Petitioners have agreed to adopt the Company's proposal to eliminate ACH/Credit Card fees.<sup>188</sup> UGI Gas notes that the cost recovery issues involved with this proposal are a component of the black box settlement. UGI Gas Statement in Support at 29 30.

I&E notes that it submitted testimony accepting UGI Gas' proposal to establish a fee-free credit card/ACH payment option, but I&E recommended a reduction to the claimed transaction fees that UGI Gas proposed to recover in rates.<sup>189</sup> Similar to UGI Gas, I&E noted that the amount of the transaction fees was absorbed into the black box settlement and therefore, the settlement only reflects that the proposal to eliminate credit card fees is accepted. In consideration of all of the testimony presented and the various positions presented by the Joint Petitioners, I&E supports the settled upon term as a full and fair compromise that provides UGI Gas, the Joint Petitioners, affected ratepayers, and the Commission with regulatory certainty and a resolution of this issue, all of which is in the public interest. I&E Statement in Support at 20.

---

<sup>182</sup> OCA St. No. 3 at 46.

<sup>183</sup> *Id.*

<sup>184</sup> Docket No. R-2019-3009647.

<sup>185</sup> UGI Gas St. No. 10 at 6-11.

<sup>186</sup> I&E St. No. 1 at 32-39; OCA St. No. 1 at 32-33.

<sup>187</sup> UGI Gas St. No. 10 at 9-11; I&E St. No. 1 at 35; OCA St. No. 1 at 32-33; CAUSE St. No. 1 at 40-41.

<sup>188</sup> Settlement ¶ 31.

<sup>189</sup> I&E St. No. 1 at 35-39; I&E St. No. 1-SR at 34-38.

OCA notes that OCA witness Colton recommended approval of UGI Gas' proposal to include fees associated with ACH and similar transaction fees in its revenue requirement rather than requiring individual customers to pay those transaction fees.<sup>190</sup> Mr. Colton testified that this proposal is reasonable and "will likely benefit rather than harm low- and moderate income households."<sup>191</sup> OCA submits that this item is in the public interest. OCA Statement in Support at 9-10.

CAUSE-PA also supports UGI Gas' proposal to include third party bill payment fees in the base rates. CAUSE-PA witness Miller explained that households with income below \$15,000 are significantly more likely to be unbanked or underbanked, and thus more likely to pay with cash or use prepaid debit cards at third party payment enters.<sup>192</sup> He argued that, given the month-to-month struggle of low income customers to meet basic expenses, the proposed change to eliminate these fees "would be a welcome financial relief and should be approved."<sup>193</sup> Waiving these fees helps mitigate the impact of the rate increase on low income customers by helping reduce the price pressures on these vulnerable customers. As such, CAUSE-PA asserts that the proposal should be approved. CAUSE-PA Statement in Support at 5-6.

### C. Energy Efficiency and Conservation

#### 1. In General

Currently, the Company manages voluntary natural gas EE&C Plans for its North Rate District and South Rate District, but the Central Rate District does not have an EE&C Plan. In this proceeding, UGI Gas proposed a Consolidated EE&C Plan based on the existing EE&C Plans for the South and North Rate Districts. This Consolidated EE&C Plan would run for five years and extend the Company's natural gas EE&C offerings to the Central Rate District as well.<sup>194</sup> UGI Gas Statement in Support at 30.

---

<sup>190</sup> OCA St. No. 4 at 55-57.

<sup>191</sup> *Id.* at p. 57.

<sup>192</sup> CAUSE-PA St. 1 at 41.

<sup>193</sup> *Id.*

<sup>194</sup> UGI Gas St. No. 13 at 3, 8-9; UGI Gas Exhibit TML-2.

UGI Gas' proposed energy efficiency programs are projected to reduce energy consumption by 7,016 Billion British Thermal Units (BBtus) over the lifetime of the installed measures.<sup>195</sup> Collectively, the programs are estimated to provide \$67.86 million in net total resource benefits with an overall Total Resource Cost (TRC) benefit-cost ratio (BCR) of 1.65.<sup>196</sup> UGI Gas Statement in Support at 30.

Several parties made recommendations and raised issues concerning the proposed EE&C Plan.<sup>197</sup> The Joint Petitioners have agreed that the Company's EE&C Plan should be approved as revised in the Settlement.<sup>198</sup> The EE&C Plan, as revised, represents the results of the Joint Petitioners' extensive settlement discussions and good-faith compromises. As a whole, the EE&C section of the Settlement constitutes a reasonable compromise of the Joint Petitioners' competing positions and resolves all issues related to UGI Gas' proposed EE&C Plan. It also provides refinements and improvements to the proposed plan and, to a substantial degree, addresses the concerns raised by the parties. Most critically, by approving the Consolidated EE&C Plan, all of UGI Gas' customers will benefit by being able to participate in the Company's EE&C programs. UGI Gas Statement in Support at 30-31.

The Commission has previously noted that there are benefits from energy efficiency measures and provided guidelines for Act 129-exempt companies if they choose to develop and implement voluntary EE&C Plans.<sup>199</sup> Moreover, Chairman Brown Dutrieuille and Commissioner Sweet issued the following Joint Statement in conjunction with the Commission's approval of the 2016 UGI Gas base rate case settlement in UGI Gas' 2016 base rate case:

Included in UGI's rate case and the Settlement, among other things, is a voluntary, five-year Energy Efficiency and Conservation (EE&C) Plan. This approximately \$27 million plan will provide rebates and incentives to residential, non-residential and multifamily customers for the installation and retrofitting of efficient equipment and the implementation of behavioral

---

<sup>195</sup> UGI Gas St. No. 13 at 3.

<sup>196</sup> *Id.*

<sup>197</sup> OCA St. No. 4 at 58-64; OCA St. No. 5; CAUSE-PA St. No. 1 at 41-49; CEO St. No. 1 at 11-13; OSBA St. No. 1 at 32-37.

<sup>198</sup> Settlement ¶ 32.

<sup>199</sup> *See* Secretarial Letter dated December 23, 2009, issued at Docket No. M-2009-2142851.



measures to reduce energy consumption. We commend UGI and the parties for developing a voluntary EE&C Plan... With natural gas service expanding within Pennsylvania, it is important that consumers are educated about, and provided with, opportunities to be energy conscious and to conserve their natural gas usage, similar to that which is provided in the electric industry.<sup>[200]</sup>

UGI Gas Statement in Support at 31.

Accordingly, UGI Gas maintains that its proposed EE&C Plan, as modified by the Settlement, is just and reasonable and should be approved without modification. UGI Gas Statement in Support at 31.

## 2. Evaluation Costs

As part of its filing, UGI Gas proposed to allocate costs in its EEC Rider to the rate classes that have generated those costs for the purposes of cost recovery.<sup>201</sup> OCA produced testimony agreeing that there is no cross-subsidization under the EEC Rider.<sup>202</sup> As a result, Joint Petitioners have included in the Settlement a term which provides that EE&C evaluation costs will be allocated amongst all rate classes for ratemaking recovery as they are incurred.<sup>203</sup> UGI Gas maintains that this provision of the Settlement is in the public interest because it will help ensure that there will not be cross-subsidization within the EE&C program. UGI Gas Statement in Support at 31-32.

OCA notes that its witness Sherwood identified a concern that the Company's proposed EE&C Plan did not correctly allocate evaluation costs to the non-residential and non-transportation Rate N/NT class even though programs and projects performed on behalf of Rate N/NT customers would be included in the evaluation.<sup>204</sup> OCA further notes that the Settlement

---

<sup>200</sup> Joint Statement of Chairman Gladys M. Brown Dutrieuille and Commissioner David W. Sweet, Docket Nos. R-2015-2518438, et al. (Sept. 1, 2016).

<sup>201</sup> See generally UGI Gas St. No. 9 at 11-14; UGI Gas St. No. 13; UGI Gas Exhibit TML-2.

<sup>202</sup> OCA St. No. 5 at 7.

<sup>203</sup> Settlement ¶ 33.

<sup>204</sup> OCA St. No. 5 at 15-16.

addresses its concern and provides that “evaluation costs will be allocated amongst all rate classes for ratemaking recovery as they are incurred.”<sup>205</sup> OCA Statement in Support at 10.

### 3. Program Budgets

As part of the proposed EE&C Plan, the Company proposed a fully flexible program wherein it would retain discretion to move funds between programs or rate classes to improve the effectiveness of the overall plan.<sup>206</sup> OCA, in particular, recommended that any funds shifted between programs within the same customer class be limited to 25% of a program’s total budget and that UGI Gas should inform the Commission and stakeholders of any budget changes beyond that 25% so they can comment on such changes.<sup>207</sup> In its rebuttal testimony, UGI Gas focused on the benefits of providing notification if the residential or non-residential sector budgets will be 25% lower than the Plan’s five-year budget. The Company considered such a change to be a material change, as would elimination of a program, and would provide notification consistent with the procedures outlined in its EE&C Plan.<sup>208</sup> UGI Gas Statement in Support at 32.

The Settlement provides that EE&C program budgets will be restricted so that program funds cannot be moved between residential and nonresidential rate classes. Budget flexibility within a rate class’ portfolio should be limited to 25% of a program’s five-year total budget. The parties agree that the Company will petition the Commission for approval of changes of 25% or more of a five-year total program budget within a rate class.<sup>209</sup> The Joint Petitioners were able to reach an agreement that balances the Company’s need for flexibility with OCA’s desire for accountability and transparency. UGI Gas maintains that this balance will allow the Company to continue to use its EE&C funds in a way that produces beneficial results to ratepayers and the Commonwealth of Pennsylvania. UGI Gas Statement in Support at 32-33.

---

<sup>205</sup> Settlement ¶ 33.

<sup>206</sup> *See generally* UGI Gas St. No. 13; UGI Gas Exhibit TML-2.

<sup>207</sup> OCA St. No. 5 at 12.

<sup>208</sup> UGI Gas St. No. 13-R, pp. 8-9.

<sup>209</sup> Settlement ¶ 34.

OCA noted that its witness Sherwood was concerned that the Company did not propose individual program budget caps because the Company wanted flexibility to shift funds between programs and years.<sup>210</sup> Ms. Sherwood was concerned that this flexibility “may result in significantly higher or lower investments in energy efficiency by rate class than was originally approved and, as a result, may not produce the results expected.”<sup>211</sup> She recommended that budget flexibility be granted within ratepayer portfolios and that the flexibility should be limited to 25% of the program’s total budget. OCA maintains that the Settlement implements Ms. Sherwood’s recommendations. Under the Settlement, the Company will have the flexibility to shift funds, but at the same time, the flexibility will be limited to the specific class portfolios and be capped at 25% of the five-year budget. OCA Statement in Support at 10-11.

#### 4. Recovery of LIURP through EE&C

The OCA submitted testimony that the Company’s EE&C program has insufficient measures directed toward low-income customers and effectively will result in low-income customers being excluded from participation.<sup>212</sup> Specifically, the OCA proposed that the \$100 assessment fee waiver for the Residential Retrofit Program should be offered to all low-income customers meeting the Low-Income Usage Reduction Program (LIURP) income requirement of 200% of the FPL or below, not just the low-income customers who do not qualify for LIURP.<sup>213</sup> CAUSE-PA claimed that UGI Gas’ EE&C program lacks specific, targeted low income programming.<sup>214</sup> UGI Gas Statement in Support at 33.

In rebuttal, the Company explained that it already offers LIURP, which is designed to improve low-income customers’ energy efficiency. UGI Gas witness Hart testified that there is no administrative benefit to collecting funds through a rider intended to recover costs for the Company’s EE&C Program when the purpose of such collection is to transfer those funds to a separate Company department that manages its LIURP.<sup>215</sup> Doing so merely creates

---

<sup>210</sup> OCA St. No. 5 at 11.

<sup>211</sup> *Id.*

<sup>212</sup> OCA St. No. 4 at 59-60.

<sup>213</sup> OCA St. No. 5 at 9-11.

<sup>214</sup> CAUSE-PA St. No. 1 at 41-49.

<sup>215</sup> UGI Gas St. No. 9-R at 6-8.

the potential opportunities for errors in fund administration with no recognized benefit, so it would be appropriate to move the collection of this funding from the EEC Rider to the USP Rider.<sup>216</sup> UGI Gas Statement in Support at 33.

In recognition of the parties' concerns that utilizing the EEC Rider to generate revenues to contribute to LIURP, rather than programs targeted at low-income customers, Settlement Paragraph 35 serves to discontinue recovery of \$100,000 of LIURP funding through UGI Gas' EEC Rider. UGI Gas maintains that this provision is in the public interest because ceasing the collection of LIURP funds from the EE&C Rider reduces potential administrative complications and inefficiencies resulting from the internal transfer of funding from the EE&C program to LIURP.<sup>217</sup> UGI Gas Statement in Support at 33-34.

Moreover, UGI Gas notes that these Settlement provisions will make additional funding for energy efficiency and conservation measures available for low-income customers, as well as increase customer awareness of the availability of such measures for low-income customers. Thus, these provisions are reasonable and in the public interest and should be approved without modification. UGI Gas Statement in Support at 34.

##### 5. Assessment Fee for LIURP Participants

As part of the Settlement, the parties agreed that customers who contact the UGI LIURP Team and who are determined by the UGI LIURP Team to have income at or below two hundred (200) percent of FPL, but who do not meet LIURP high-energy usage thresholds, or who request direct install measures not offered by LIURP but offered by the EE&C Residential Retrofit (RR) Program, will be referred to the RR Program to receive a fee-waived assessment. The RR assessment fee waiver provided to low-income customers, including all direct install measures implemented under a fee-waived assessment, will be capped at \$250,000 annually. While there is no specific low-income carve out in the Company's EE&C programs, the fee waiver serves to make this program more accessible to low-income customers. Further, it is not

---

<sup>216</sup> *Id.*

<sup>217</sup> *Id.*

duplicative of LIURP, since many of the measures in the RR Program are not measures available under LIURP. Direct install measures will include, but not be limited to smart thermostats, low flow devices, and water heater tank temperature setback. UGI Gas Statement in Support at 34.

UGI Gas asserts that these Settlement provisions will make additional funding for energy efficiency and conservation measures available for low-income customers, as well as increase customer awareness of the availability of such measures for low-income customers. Thus, these provisions are reasonable and in the public interest and should be approved without modification. UGI Gas Statement in Support at 34.

I&E notes that it did not submit testimony regarding these specific issues. Nevertheless, I&E shares the concerns of the interested Joint Petitioners. I&E does not oppose these settled upon terms regarding UGI Gas' EE&C plan as a full and fair compromise that provides regulatory certainty and resolution of these issues, all of which facilitates the Commission's stated preference favoring negotiated settlements as in the public interest. I&E Statement in Support at 22-23.

OCA notes that its witness Sherwood recommended that a low-income component be included in the Company's EE&C Plan, and the assessment fee under the RR program should be waived for all eligible LIURP participants.<sup>218</sup> The RR program is an audit program that provides direct install measures and recommendations for deeper retrofits and has an initial assessment fee of \$100.<sup>219</sup> The Settlement adopts this recommendation. The RR provides participants direct install measures, such as a smart thermostat, that may not otherwise be available to the low-income customer through the LIURP program and also would serve low-income customers who otherwise do not meet the LIURP high energy usage thresholds. OCA Statement in Support at 11-12.

The Settlement provides that the Company will have a specific low-income component to their residential EE&C program. Each of the Act 129 programs contains a low-

---

<sup>218</sup> OCA St. No. 5 at 9-11.

<sup>219</sup> *Id.* at 9.

income program.<sup>220</sup> The Settlement will provide low-income customers with a benefit from the Plan at no cost to them. The OCA submits that the Settlement implements several of OCA witness Sherwood’s recommendations. The Settlement provisions will ensure that the Company’s evaluation costs are appropriately allocated, that the Company will have appropriate flexibility to shift funds within the portfolios, and that low-income customers will have the ability to receive a benefit from the EE&C Plan program. The OCA submits that the EE&C Plan provisions are in the public interest and should be approved. OCA Statement in Support at 12.

CAUSE-PA notes that, as part of its initial rate filing, UGI Gas proposed a five-year EE&C Plan that would provide EE&C services to residential and non-residential consumers across its three rate districts. While UGI Gas is not statutorily mandated to comply with the standards and requirements of Act 129 EE&C programming, UGI Gas asserted through testimony that it nevertheless modeled its proposed plan on the requirements contained in the Act.<sup>221</sup> CAUSE-PA witness Miller agreed that, to be considered just, reasonable, and in the public interest, UGI Gas’ plan should be modeled on the standards and guidelines set forth in Act 129.<sup>222</sup> But as Mr. Miller explained in direct testimony, UGI Gas’ initial proposal allocated only between 1.1 and 1.4% of UGI Gas’ residential spending for dedicated low income programming – falling far short of meeting Act 129’s requirement that EE&C Plans include a “proportionate” level of measures for low income consumers.<sup>223</sup> As Mr. Miller concluded, low income consumers would be required to pay, on average, between \$9.44 and \$13.74 annually to finance the EE&C Plan, but very few would derive a benefit from that programming.<sup>224</sup> CAUSE-PA Statement in Support at 6.

CAUSE-PA maintains that the proposed Settlement, which was carefully negotiated amongst the parties, rectified this shortcoming. As previously noted, UGI Gas agreed to waive the energy audit fee for low income consumers (up to 200% FPL) who participate in the EE&C Residential Retrofit program, subject to a spending cap of \$250,000.<sup>225</sup> Those who

---

<sup>220</sup> See, Phase III Implementation Order, Docket No. M-2014-2424864 at 69 (June 11, 2015).

<sup>221</sup> UGI St. 13 at 6-7.

<sup>222</sup> *Id.* at 42.

<sup>223</sup> CAUSE-PA St. 1 at 41-44.

<sup>224</sup> *Id.* at 42-43.

<sup>225</sup> Joint Pet. at ¶ 36.

receive an audit through the Residential Retrofit Program will also receive a number of direct-install measures, such as a programmable thermostat, low flow faucets and shower-heads, and other energy efficiency and conservation measures.<sup>226</sup> The proposed Settlement is careful to ensure that those who are eligible for LIURP will continue to be served through LIURP because LIURP offers more compressive programming to high usage consumers than the measures that will be installed through the Residential Retrofit audit program.<sup>227</sup> CAUSE-PA Statement in Support at 7.

In addition to waiving the energy audit fee, the proposed Settlement also includes a general increase of \$400,000 annually to UGI Gas' overall LIURP budget to help ensure that more low income consumers have access to the comprehensive, deep energy efficiency and conservation measures provided to low income consumers through LIURP. While ultimately this provision to increase LIURP funding was included in the universal service section, below, it is important to recognize that the intent of this provision was in part to help address the lack of proportionate low-income programming within UGI Gas' proposed EE&C. CAUSE-PA Statement in Support at 7.

CAUSE-PA maintains that together, these two provisions help ensure that low income consumers will derive a more proportionate level of energy efficiency and conservation programming, and ensure that existing EE&C benefits for low income consumers in UGI North service territory are not diminished. Accordingly, CAUSE-PA believes that these provisions are in the public interest and should be approved. CAUSE-PA Statement in Support at 7.

---

<sup>226</sup> *Id.*

<sup>227</sup> *Id.*

## D. Universal Service and Other Low Income Issues

### 1. In General

UGI Gas did not propose any changes regarding the administration or services provided by the universal service programs in this distribution base rate proceeding.<sup>228</sup> Importantly, the Company filed a revised Universal Service and Energy Conservation Plan (USECP) on June 30, 2017, at Docket No. M-2017-2598190 for the period of January 1, 2018 through December 31, 2020.<sup>229</sup> UGI Gas Statement in Support at 34-35.

UGI Gas proposed to merge the USP Rider into one uniform cost recovery program, *i.e.* creating a single budget for the programs from the three rate districts rather than maintaining separate budgets by rate district.<sup>230</sup> UGI Gas explained that, from time to time, it had faced challenges in spending all of its program budgets for one or more rate districts and that having one budget for all rate districts would increase flexibility to utilize funds based upon need.<sup>231</sup> UGI Gas Statement in Support at 35.

Several Parties to this proceeding recommended structural changes to UGI Gas' Universal Service programs. With the exception of OCA's recommendations on CAP enrollment and CAP working capital adjustments, OCA, CAUSE-PA and CEO made several proposals to the Company's universal service offerings that the Company believes are largely unrelated to the proposed rate increase and could have been raised in the Company's pending USECP filing.<sup>232</sup> UGI Gas Statement in Support at 35.

The Universal Service provisions of the Settlement represents the results of the Joint Petitioners' extensive settlement discussions and good-faith compromises. While UGI Gas believes that these issues would be more appropriately addressed in its next triennial Universal

---

<sup>228</sup> UGI Gas St. No. 10 at 12.

<sup>229</sup> *Id.* at 11.

<sup>230</sup> *Id.* at 12.

<sup>231</sup> *Id.* at 12-14.

<sup>232</sup> *See* UGI Gas St. 10-R at 21-38.



Service Program filing, in settlement, the Company agreed to address and adopt certain proposed changes to UGI Gas's Universal Service programs. UGI Gas Statement in Support at 35.

I&E notes that, while it did not submit testimony regarding these specific issues, I&E shares the concerns of the interested Joint Petitioners. I&E does not oppose these settled upon terms regarding UGI Gas' universal service and other low-income issues as a full and fair compromise that provides regulatory certainty and resolution of these issues, all of which facilitates the Commission's stated preference favoring negotiated settlements as in the public interest. I&E Statement in Support at 23-24.

OCA witness Colton provided recommendations to address low-income and universal services issues that he identified in reviewing the Company's base rate filing.<sup>233</sup> The Settlement addresses a number of these concerns. The OCA submits that the terms of the Settlement are in the public interest in that they provide necessary steps toward remedying issues related to integration of the LIURP and Hardship Fund budgets, Budget Billing outreach, and cold weather protections. Specifically, the Budget Billing provisions will help to ensure access to Budget Billing for customers in arrears. OCA Statement in Support at 12-13.

OCA maintains that increasing LIURP funding will work to benefit both CAP customers and non-CAP residential customers who pay the costs of the program. Low-income customers will receive the benefit of lower energy bills, and non-low-income customers will benefit because lower energy usage will decrease the amount of the CAP shortfall. The Emergency Furnace Repair program increase will also provide additional assistance to low-income customers in need of furnace repair or replacement to help customers maintain service. OCA Statement in Support at 14.

OCA further maintains that the low-income customer provisions will provide additional residential and low-income customer protections, will help to ensure the availability of essential programs to low-income customers, will help to ensure that CAP customers are provided the lowest available rate, and will ensure equitable cost recovery for the residential

---

<sup>233</sup> See generally, OCA St. No. 4.

ratepayers that pay the costs of the program. Accordingly, OCA asserts that the low-income customer provisions of the Settlement are in the public interest and should be approved. OCA Statement in Support at 14.

## 2. Use of Community Based Organizations

UGI Gas did not propose any changes to the manner in which it utilizes Community Based Organizations (CBOs) as a part of its Universal Service Programs. CEO and CAUSE-PA raised concerns about the continued use of CBOs, and the manner in which the Company would budget or allocate funds to CBOs as a result of the consolidated USP Rider.<sup>234</sup> UGI Gas Statement in Support at 36.

In the Settlement, UGI Gas commits to maintaining its existing business relationship with CBOs, subject to each individual CBO's continued performance in conformance with the Company's USECP rules and its contract with the Company.<sup>235</sup> This Settlement provision is in the public interest because it will continue the Company's use of these organizations as an important link between the Company's low-income programs and the low-income customers served by those programs. UGI Gas Statement in Support at 36.

CAUSE-PA notes that this provision will help ensure continuity in the administration of UGI Gas' low income programing, and will facilitate inter- and intra-coordination across various universal service and other related assistance programs. It will also help fulfill the explicit preference in the Public Utility Code for universal service programs to be administered by CBOs, which have established ties in low income communities.<sup>236</sup> As such, CAUSE-PA supports this provision, and asserts that it should be approved. CAUSE-PA Statement in Support at 8.

For its part, CEO supports the Joint Petition for Approval of Settlement of All Issues and believes that it is in compliance with the applicable laws and regulations and serves

---

<sup>234</sup> CEO St. No. 1 at 12-13; CAUSE-PA St. No. 1 at 27-30.

<sup>235</sup> Settlement ¶ 37.

<sup>236</sup> 66 Pa. C.S. § 2203(8).

the public interest because, in the Settlement, the Company reiterates its intent to continue to use CBOs to assist in the implementation of its universal service programs. CEO Statement in Support at 1-2.

### 3. Distribution of Universal Services Funding

OCA, CAUSE-PA and CEO each raised concerns regarding the funding of the Company's Universal Service programs under a consolidated USP Rider and/or made specific proposals to increase the funding of certain programs.<sup>237</sup> While the Company explained that these concerns about inequitable allocation of Universal Service program funds were unwarranted,<sup>238</sup> the Settlement provides that the Company will implement a consolidated Universal Service program budget that maintains its current funding allocations as proposed in its pending USECP at Docket No. M-2017-2598190 across the geographic footprint of its former three rate districts unless and until a new allocation is proposed and approved as part of its next triennial USECP filing.<sup>239</sup> In addition, the Settlement caps the amount of funding the Company is permitted to re-allocate between the geographic territory served by its former rate districts at five (5) percent and provides a process for the Company to notify parties of funding allocation changes and for parties to comment on the consolidated Universal Services budget.<sup>240</sup> This provision is in the public interest because it will ensure the Company continues to adequately fund its Universal Service programs in the portion of the territory served by each of its former rate districts, and that funds will not be unreasonably or improperly shifted between the areas served by the former rate districts. UGI Gas Statement in Support at 36-37.

CAUSE-PA notes that UGI Gas, as part of its rate filing, proposed to consolidate the budgets for its universal service programs across its three rate districts.<sup>241</sup> As CAUSE-PA witness Miller testified, this initial proposal lacked specificity, and was ultimately inadequate to ensure that that UGI Gas' universal service programs – specifically its LIURP and Hardship

---

<sup>237</sup> See OCA St. No. 4 at 19-23; CAUSE-PA St. No. 1 at 26-41; CEO St. No. 1 at 9-10.

<sup>238</sup> see UGI Gas St. No. 10-R at 26-27.

<sup>239</sup> Settlement ¶ 38.

<sup>240</sup> *Id.*

<sup>241</sup> UGI St. 10 at 12.

Fund program – would be “equitably distributed” across its three rate districts.<sup>242</sup> Since the proposed Settlement addresses this inadequacy by requiring UGI Gas to maintain spending levels in each rate district which are consistent with the budgets proposed in UGI Gas’ pending triennial USECP, CAUSE-PA believes that this provision is in the public interest, and should be approved. CAUSE-PA Statement in Support at 8.

#### 4. Unspent Program Dollars

The Settlement provides that any unspent dollars for UGI Gas’ Consolidated LIURP and Hardship Fund programs at the end of a program year will roll over and be added to the budget for the following year.<sup>243</sup> UGI Gas maintains that this provision is in the public interest because it ensures that the dollars budgeted for these programs are spent and that any underspent funds are ultimately used to provide important services to low-income customers. UGI Gas Statement in Support at 37.

CAUSE-PA notes that this provision is consistent with UGI Gas’ current practice for UGI North and UGI South, where unspent funds for LIURP roll over from year to year; however, it represents a significant change for UGI Central. As CAUSE-PA witness Miller explained, UGI Gas has consistently underspent its LIURP budget for UGI Central – despite clear and demonstrated need for usage reduction services.<sup>244</sup> CAUSE-PA maintains that this provision of the proposed Settlement will help ensure that UGI Gas more consistently spends its program dollars year over year, to the benefit of low income consumers seeking assistance through the program. CAUSE-PA Statement in Support at 10.

#### 5. Annual LIURP Funding Increase

UGI Gas notes that CEO recommended an increase to the annual LIURP budget for the three rate districts of \$650,000.<sup>245</sup> OCA recommended that \$450,000 be transferred from

---

<sup>242</sup> CAUSE-PA St. 1 at 29-33.

<sup>243</sup> Settlement ¶ 39.

<sup>244</sup> CAUSE-PA St. 1 at 37-38.

<sup>245</sup> CEO St. No. 1 at 9-10.

the Company's EE&C Program to the LIURP program.<sup>246</sup> CAUSE-PA recommended that the Company increase its LIURP funding by (1) a percentage proportional to the percent increase in rates adopted in the proceeding and (2) an amount equal to the estimated amount collected from low-income customers under the EE&C rider, *i.e.* approximately \$739,630 across the three districts.<sup>247</sup> UGI Gas Statement in Support at 37.

In rebuttal, the Company explained that LIURP funding should not be increased as a part of this base rate proceeding. The Company further explained that the better approach would be to implement the LIURP funding levels specified in the currently-pending USECP (after those budgets are approved by the Commission) before seeking further budgetary increases to LIURP and to allow for proposed increases to LIURP in its next USECP filing.<sup>248</sup> UGI Gas Statement in Support at 37-38.

In the Settlement, the Joint Petitioners agree that UGI Gas will increase annual LIURP funding by \$400,000, effective January 1, 2020, and that UGI Gas will roll-over unspent LIURP funds for the following year(s).<sup>249</sup> LIURP weatherization projects help low-income customers reduce their natural gas usage and lower their monthly bills. This Settlement provision will allow UGI Gas to continue to increase the annual number of LIURP weatherization jobs it performs, while fully recovering the costs of administering the program. UGI Gas Statement in Support at 38.

CAUSE-PA submits that this budget increase serves a dual purpose. First, the general budget increase will help ensure that LIURP services are available to a greater number of low income consumers who need assistance to control their heating costs. This will, in turn, help offset the impact of the rate increase on those most impacted by the increase in the cost of basic services. The proposed LIURP funding increase will also help ensure that low income households across UGI Gas' service territory will have access to a more proportional level of energy efficiency and conservation services. CAUSE-PA asserts that UGI Gas' proposed EE&C

---

<sup>246</sup> OCA St. No. 4 at 65; OCA St. No. 5 at 6-7.

<sup>247</sup> CAUSE-PA St. No. 1 at 18-19, 48-49.

<sup>248</sup> UGI Gas St. No. 10-R at 23-24.

<sup>249</sup> *See* Settlement ¶¶ 39-40.

lacked adequate direct benefits for low income consumers,<sup>250</sup> and maintains that the proposed increase in LIURP funding will help remedy this inadequacy, and will ensure that UGI Gas' low income consumers will have improved access to comprehensive conservation measures – which will in turn help to decrease usage and control the monthly cost of energy over the long term. CAUSE-PA Statement in Support at 9-10.

CEO supports the Joint Petition for Approval of Settlement of All Issues and believes that it is in compliance with the applicable laws and regulations and serves the public interest because the Settlement increases funding for the Company's LIURP program for the residential class. CEO maintains that this increase will help low-income customers deal with the effect of the rate increase resulting from this Settlement. CEO Statement in Support at 1.

#### 6. Emergency Furnace Repair Program

CAUSE-PA recommended that UGI Gas expand the Furnace Repair initiative under its LIURP program to all three rate districts and to include service line repair measures. In addition, CAUSE-PA recommended that the Company budget separate amounts to each rate district, and that service lines be included in the repair program.<sup>251</sup> The Company disagreed with this recommendation for the same reasons it disagreed with the Parties' proposals regarding budget increases to the general LIURP budget. Moreover, with respect to CAUSE-PA's concerns regarding service line repairs, the Company explained that it owns the service lines to the houses in its service territory and maintains them in accordance with gas safety regulations and other risk criteria.<sup>252</sup> UGI Gas Statement in Support at 38.

In the Settlement, the Joint Petitioners agreed that UGI Gas will increase its aggregate Gas LIURP budget by \$100,000 per year to provide additional funding for its Emergency Furnace Repair initiative and permit all eligible customers throughout the service territory to participate.<sup>253</sup> UGI Gas maintains that this provision is in the public interest because

---

<sup>250</sup> See CAUSE-PA St. 1 at 43-48.

<sup>251</sup> CAUSE-PA St. No. 1 at 38-40.

<sup>252</sup> UGI Gas St. No. 10-R at 25-26.

<sup>253</sup> Settlement ¶ 41.

it will allow UGI Gas to continue to expand the repair and replacement of gas furnaces throughout its service territories, thereby increasing the safety and reliability of service provided to low-income customers. UGI Gas Statement in Support at 38-39.

CAUSE-PA notes that this provision will help to ensure that furnace repair services are made available to all of UGI Gas' low income customers, regardless of their rate district. By helping to reduce reliance on inadequate, unsafe, and inoperable natural gas furnaces, this provision of the Settlement will help protect the health and safety of individual consumers and their families – as well as the community as a whole – and will help reduce reliance on expensive, inefficient, and otherwise unsafe supplemental heating sources such as plug-in electric space heaters, propane or kerosene generators, and/or the use of ovens for space-heating purposes.<sup>254</sup> CAUSE-PA Statement in Support at 10.

#### 7. Third Party Notification Program

OCA recommended the expansion of the Company's Third Party Notification (TPN) program based on concerns OCA raised regarding the Company's collection performance.<sup>255</sup> In its rebuttal testimony, the Company provided an overview of the TPN program and explained that OCA's justifications for its proposal were unsupported.<sup>256</sup> UGI Gas Statement in Support at 39.

In the Settlement, the parties agreed that UGI Gas will provide TPN forms to its CBOs for inclusion in their assistance applications and, to the extent that CBOs charge UGI Gas for use of these TPN forms, UGI Gas will be permitted to recover these costs through the USP Rider.<sup>257</sup> UGI Gas notes that this provision reflects a balancing of interests and is a reasonable compromise that will expand the use of TPN practices, while permitting UGI Gas to recover potential cost increases associated with the expansion of this practice. UGI Gas Statement in Support at 39.

---

<sup>254</sup> See CAUSE-PA St. 1 at 38-39.

<sup>255</sup> OCA St. No. 4, pp. 39-4.

<sup>256</sup> UGI Gas St. No. 10-R at 33-34.

<sup>257</sup> Settlement ¶ 42.

## 8. Forms of Income Verification for Cold Weather Protections

OCA argued that UGI Gas' methods for qualifying customers for low-income protections during the winter moratorium were too restrictive.<sup>258</sup> UGI Gas explained in rebuttal testimony that its tariff language was consistent with the agreed upon language from UGI Gas South's 2016 Gas Rate Case<sup>259</sup> and also compliant with the Commission's requirements. The Company uses self-reported income provided by the customer, on any call, to determine whether the account will flow through the winter termination process. As such, the Company took the position that no additional changes to the Company's practices were necessary.<sup>260</sup> UGI Gas Statement in Support at 39-40.

In the Settlement, the Joint Petitioners agreed that UGI Gas will amend its tariff language on cold weather protection to adopt the language from the Columbia Gas of Pennsylvania tariff.<sup>261</sup> UGI Gas maintains that this provision is in the public interest because it will enhance the income verification process and provide benefits to customers, in addition to those already provided under UGI Gas' current tariff language. UGI Gas Statement in Support at 40.

CAUSE-PA witness Miller explained in his direct testimony that UGI Gas' low income customers also have a markedly higher rate of involuntary, payment-based termination compared to average residential customers.<sup>262</sup> He further explained that when low income customers lose their primary heating source they often resort to dangerous heating methods.<sup>263</sup> CAUSE-PA maintains that this provision will help reduce barriers for low income consumers who are in critical need of winter termination protections, and will in turn help lower the number

---

<sup>258</sup> OCA St. No. 4 at 49-55.

<sup>259</sup> *Pennsylvania Public Utility Commission v. UGI Utilities, Inc. - Gas Division, Office of Consumer Advocate, Office of Small Business Advocate, UGI Industrial Intervenors, Joseph P. Sandoski and Vicki L. East Tom Harrison v. UGI Utilities, Inc. - Gas Division*, Docket Nos. R-2015-2518438, C-2016-2527150, C-2016-2528559, C-2016-2529436, C-2016-2529638, C-2016-2534010, and C-2016-2534992.

<sup>260</sup> UGI Gas St. No. 10-R at 35-36.

<sup>261</sup> Settlement ¶ 43.

<sup>262</sup> CAUSE-PA St. 1 at 14.

<sup>263</sup> *Id.* at fn. 23.



of winter terminations and reduce the danger and added expense associated with reliance on supplemental heating sources. CAUSE-PA Statement in Support at 11.

#### 9. Government Identification to Establish Service

CAUSE-PA raised concerns regarding the Company's customer identification practices, with respect to the form of identification required to initiate service. Specifically, CAUSE-PA argued that UGI Gas was not complying with prior settlement provisions that required it to recognize government ID's issued by foreign governments as valid identification for purposes of initiating service.<sup>264</sup> While UGI Gas maintains that it was fully compliant with the prior settlement and accepted identification issued by "Federal, State, or Local Governments" without restricting the eligible governments to the United States, the Company nonetheless proposed to revise its identification policy in rebuttal testimony to make it abundantly clear that foreign government-issued identification would be accepted.<sup>265</sup> UGI Gas Statement in Support at 40.

Paragraph 43 of the Settlement reflects the Company's commitment to accept foreign government-issued identification and remove any ambiguity regarding whether such identification will be accepted from its tariff.<sup>266</sup> UGI Gas asserts that this provision is in the public interest because it continues the Company's commitment to promptly initiating service to its customers when it is provided with valid identification. UGI Gas Statement in Support at 40. For its part, CAUSE-PA maintains that this change will help ensure that the ability of foreign-born consumers to connect to natural gas service is not unduly hindered by UGI Gas' identification requirements. CAUSE-PA Statement in Support at 11-12.

#### 10. Security Deposit Waiver/Release of Previously Collected Security Deposits

CAUSE-PA raised concerns regarding the Company's low-income security deposit waiver practices. Specifically, CAUSE-PA argued that UGI Gas was not complying

---

<sup>264</sup> CAUSE-PA St. No. 1 at 22-24.

<sup>265</sup> UGI Gas St. No. 10-R at 32-33; *see also* UGI Gas Exhibit DVA-2R.

<sup>266</sup> Settlement ¶ 43.

with a prior settlement commitment by allegedly requiring customers to enroll in the CAP in order to have a security deposit waived.<sup>267</sup> The Company's rebuttal testimony demonstrated that it does not require a customer to enroll in CAP to obtain a security deposit waiver; rather, a low-income customer could verify their income *or* enroll in CAP to obtain the waiver.<sup>268</sup> As such, the Company asserted that its security deposit waiver practices were consistent with the prior settlement and the Commission's regulations. UGI Gas Statement in Support at 41.

The Joint Petitioners agreed in the Settlement that UGI Gas will (1) revise its letter, as well as its call scripts, training materials and other written policies and procedures to clarify that enrollment in CAP is not a requirement to obtain a security deposit waiver and (2) clarify the steps that the customer must take to obtain a security deposit waiver.<sup>269</sup> In addition, the Settlement provides for the review of these materials at the Company's annual Universal Service Program Collaborative Meeting.<sup>270</sup> The Settlement also provides that UGI Gas will review currently held security deposits each month and will issue a bill credit or refund for any deposit previously collected from a confirmed low income customer, until programming to its billing system is complete and operationalized to automate this process.<sup>271</sup> UGI Gas Statement in Support at 41.

UGI Gas asserts that these Settlement provisions are in the public interest because they further clarify the Company's procedures for providing security deposit waivers to customers and ensure that any security deposits collected from low-income customers are promptly returned to them. UGI Gas Statement in Support at 41. For its part, CAUSE-PA maintains that these steps will help ensure that low income consumers are adequately apprised of their rights, and will instill appropriate safeguards to ensure that security deposits collected from low income consumers are released and returned in a prompt manner. CAUSE-PA Statement in Support at 12.

---

<sup>267</sup> CAUSE-PA St. No. 1 at 22-24.

<sup>268</sup> UGI Gas St. No. 10-R at 29-31.

<sup>269</sup> Settlement ¶ 45.

<sup>270</sup> *Id.*

<sup>271</sup> Settlement ¶ 46.

## 11. Quarterly CAP Rate Plan Review

CAUSE-PA argued that UGI Gas does not have a system to periodically review payment plans to determine whether a more beneficial rate (*i.e.* either an average bill or percent of income rate) is available, and should implement a system to conduct this review on a monthly basis.<sup>272</sup> While CAUSE-PA acknowledged that UGI Gas had a process in place by which a customer could initiate a review to determine whether a more beneficial CAP rate is available, CAUSE-PA argued that the onus should not be on the customer to initiate this review.<sup>273</sup> UGI Gas Statement in Support at 41-42.

The Company explained in its rebuttal testimony that it was unnecessary for the Company to create a new system program to periodically review a low-income customer's income level or payment ability because it already has many ways that permit a low-income customer to provide current income information to the Company or one of its CBOs. In addition, during the CAP re-certification process, a CAP rate available to a customer is reviewed and, if necessary, the customer will be placed on a more beneficial rate at that time.<sup>274</sup> UGI Gas Statement in Support at 42.

The Settlement includes a provision whereby UGI Gas will, on a quarterly basis, review CAP rates for those enrolled in the average bill or percentage of income CAP rate plans to determine whether a more affordable rate plan is available.<sup>275</sup> In addition, UGI Gas will be permitted to recover any just and reasonably incurred Information Technology costs associated with formalizing this practice in its customer billing system through its USP Rider, such costs being capped at \$125,000.<sup>276</sup> UGI Gas Statement in Support at 42.

UGI Gas asserts that this provision is in the public interest because it reflects a reasonable compromise of competing interests. The Settlement strikes a balance between the

---

<sup>272</sup> CAUSE-PA St. No. 1 at 34-36.

<sup>273</sup> *Id.* at 35.

<sup>274</sup> UGI Gas St. No. 10-R at 10-11.

<sup>275</sup> Settlement ¶ 47.

<sup>276</sup> *Id.*

implementation of beneficial, periodic CAP rate reviews, with the need to recover the reasonably incurred costs necessary to implement these reviews. UGI Gas Statement in Support at 42.

CAUSE-PA maintains that approval of this provision will help ensure that CAP customers are receiving the most affordable bill for which they qualify, without requiring unnecessarily burdensome procedures for low income consumers to affirmatively request a rate assessment or submit more frequent income verification. While not absolute, as rates will still inevitably increase for the majority of low income CAP customers, this provision will help to lessen the overall impact of the rate increase on economically vulnerable low income consumers.<sup>277</sup> It is noteworthy that this periodic review process is consistent with other utilities that have similar CAP rate structures, including Peoples Natural Gas and Columbia Gas of Pennsylvania.<sup>278</sup> CAUSE-PA submits that this provision is squarely in the public interest, and should be approved. CAUSE-PA Statement in Support at 13-14.

## 12. Budget Billing Enrollment

OCA recommended that UGI Gas allow customers with arrears to enter into budget billing (for current charges) and receive a payment agreement (for arrearages).<sup>279</sup> The Company explained it already permits low-income customers to have payment arrangements that involve a budget bill component for current charges and an installment plan for arrearages, but does not permit customers to have additional payment terms after two payment agreements are broken (and not subsequently reinstated).<sup>280</sup> As such, the Company took the position that no further revisions to the Company's budget billing practices were necessary. UGI Gas Statement in Support at 43.

The Joint Petitioners agreed in the Settlement that UGI Gas will eliminate its restriction on Budget Billing enrollment that bars the enrollment of customers in arrears in Budget Billing, and that any arrearage balance and payments towards the arrearage balance will

---

<sup>277</sup> CAUSE-PA St. 1 at 35.

<sup>278</sup> CAUSE-PA St. 1 at 35.

<sup>279</sup> OCA St. No. 4 at 37-38.

<sup>280</sup> UGI Gas St. No. 10-R at 28-29.

be accounted for separately from the customer's Budget Bill amount.<sup>281</sup> UGI Gas maintains that this provision is in the public interest because it provides additional customers access to Budget Billing. Moreover, the requirement that the arrearage balance and payments toward that balance will be separately accounted from the Budget Bill amount ensures a customer receives the benefits of Budget Billing while fully paying-off any arrears on their account. UGI Gas Statement in Support at 43.

## E. Transportation

### 1. In General

As a result of the merger, UGI Gas created an internal team that reviewed the reliability requirements of a unified UGI Gas system, and that identified discrepancies in Choice and Non-Choice transportation rules and practices between rate districts and considered potential solutions.<sup>282</sup> After completing the internal review, the team then developed an initial strawman proposal for unified transportation rules that was presented at a September 30, 2018 collaborative, to get feedback from interested stakeholders.<sup>283</sup> The results of this collaborative process to develop a uniform transportation program were presented as a part of the Company's direct case in this proceeding. UGI Gas Statement in Support at 43-44.

The Joint Petitioners have agreed that, except as specifically modified by this Settlement, the Company's proposed Choice and Non-Choice transportation program rules are approved and will become effective November 1, 2019, in the case of the Choice transportation program and November 1, 2020, in the case of the Non-Choice transportation program.<sup>284</sup> UGI Gas Statement in Support at 44.

I&E notes that, although it did not submit testimony regarding any transportation issues, I&E shares the concerns of the interested Joint Petitioners. I&E does not oppose these

---

<sup>281</sup> Settlement ¶ 48.

<sup>282</sup> UGI Gas St. No. 12 at 7.

<sup>283</sup> *Id.*

<sup>284</sup> Settlement ¶ 50.

settled upon terms regarding the transportation issues as a full and fair compromise that provides regulatory certainty and a resolution of these issues, all of which facilitates the Commission's stated preference favoring negotiated settlements as in the public interest. I&E Statement in Support at 24.

Direct Energy notes that the Settlement contains numerous provisions addressing transportation concerns it raised throughout this proceeding, as well as other provisions, that will benefit Natural Gas Supplier's (NGSs) and, in turn, provide a public benefit. Direct Energy Statement in Support at 5.

NGS/RESA notes that, while a number of these transportation provisions will increase costs to suppliers depending on a customer's location, because rates have been unified, it also is true that in exchange the suppliers will get increased flexibility, less onerous cash out requirements, and in some cases, reduced costs. The benefits to customers are numerous as well and include for non-choice customers the opportunity for more accurate metering which allows customers to lower costs by having exact delivery targets,<sup>285</sup> less onerous cash out provisions<sup>286</sup> and the expanded ability to rely on No Notice Service (NNS) above the 4.5% threshold, albeit on an interruptible basis.<sup>287</sup> Supplier operations will be benefited by consolidated delivery rules and tariffs and the opportunity, however remote, of having virtual access to storage.<sup>288</sup> NGS/RESA Statement in Support at 4.

NGS/RESA maintains that when suppliers are able to operate more efficiently, and in the best interests of their customers, everyone benefits. Customers receive better service at more competitive rates, suppliers are able to retain customers and provide more favorable offers and the utility benefits, merely in better image but also by having a happier customer who is less likely to burden it with complaints. NGS/RESA Statement in Support at 5.

---

<sup>285</sup> Settlement ¶ 59.

<sup>286</sup> Settlement ¶ 57

<sup>287</sup> Settlement ¶ 53

<sup>288</sup> Settlement ¶ 63

## 2. Delivered Supply Service

UGI Gas notes that Delivered Supply Services play an important role in the Company's ability to supply the firm requirements of the Company's Core Market Customers. They provide the Company the right to purchase from zero dekatherm (dth) to a maximum daily quantity of natural gas supplies each day with an associated daily deadline for UGI Gas to notify its supplier. NGSs that serve Choice customers receive access to the Company's Delivered Supply Services.<sup>289</sup> UGI Gas Statement in Support at 44.

The Joint Petitioners have agreed that, effective November 1, 2020, the Company will make necessary tariff changes in its compliance filing in this case to allow deliveries of delivered supply service available to an NGS under the Choice program to be used to meet its Non-Choice delivery requirements to the extent the delivered supply capacity is not needed to serve a NGS' Choice load.<sup>290</sup> UGI Gas maintains that by allowing NGSs the ability to use underutilized Choice delivered supply service for Non-Choice deliveries, the NGSs will have more options available to them to provide the least possible cost supply for the customers they serve in the Non-Choice transportation market on UGI Gas' system. UGI Gas Statement in Support at 44.

Direct Energy witness Magnani provided testimony related to UGI Gas' delivered supply service regarding his concerns with increasing delivery supplies to the choice program and Direct Energy's limited access to that supply under UGI Gas' current tariff provisions. Mr. Magnani explained that under UGI Gas' current tariff, Direct Energy pays a demand charge for all delivered supply, regardless of whether Direct Energy takes it. Mr. Magnani testified that Direct Energy is limited to its actual demand, and if the delivered supply exceeds that limit, Direct Energy gets cashed out. Direct Energy is unable to transfer length from the choice pools to other pools. As such, Mr. Magnani recommended that UGI Gas revise its Supplier Tariff to provide that for any delivery less than peak demand to which Choice Suppliers are paying

---

<sup>289</sup> UGI Gas St. No. 12-R at 20.

<sup>290</sup> Settlement ¶ 51.

demand charges, Choice Suppliers shall have the ability to deliver to non-choice customers.<sup>291</sup> Direct Energy Statement in Support at 4-5.

Direct Energy notes that this settlement provision is consistent with Mr. Magnani's recommendation regarding UGI Gas' delivered supply service. As Mr. Magnani explained, approval of this Settlement provision will allow Choice Suppliers, who are required to pay demand charges for all delivered supply, the ability to deliver excess supply to non-choice customers. Direct Energy asserts that such a practice is efficient, will prevent NGSs from having to pay demand charges on supply that they do not take, and will reduce costs for UGI Gas' customers. For these reasons, Direct Energy maintains that the Settlement is in the public interest and in the interest of NGSs operating in the Company's service territory. Direct Energy Statement in Support at 5-6.

### 3. Non-Choice Daily Balancing

In its direct case, the Company proposed to merge the existing daily balancing tolerances. Currently, daily imbalances of up to ten percent (10%) are permitted in the UGI Gas South Rate District, whereas imbalances of up to two and one-half percent (2.5%) are permitted in the UGI North and Central Rate Districts.<sup>292</sup> UGI Gas proposed to consolidate this balancing service to a system-wide four and one-half percent (4.5%) daily balancing tolerance.<sup>293</sup> The revised four and one-half percent (4.5%) threshold reflects a weighted average of current daily imbalance allowances, which means that when UGI Gas is managing daily imbalances system-wide it should not need to procure any meaningful new gas supply resources to handle such swings above current aggregate levels.<sup>294</sup> UGI Gas Statement in Support at 44-45.

NGS/RESA provided testimony in opposition to the Company's proposed use of 4.5%.<sup>295</sup> Rather than using a 4.5% imbalance, NGS/RESA supported the adoption of a 6%

---

<sup>291</sup> Direct Energy St. 1 at 12.

<sup>292</sup> UGI Gas St. No. 12 at 11-12.

<sup>293</sup> *Id.*

<sup>294</sup> *Id.*

<sup>295</sup> NGS/RESA St. No. 1 at 7-9.



threshold.<sup>296</sup> Direct Energy similarly proposed an increase in the threshold, to 5.8%.<sup>297</sup> In rebuttal testimony, the Company did not agree with the proposals to adjust the imbalance threshold, because it would over-state the quantity of daily balancing service that the Company currently provides to transportation customers.<sup>298</sup> Further, increasing the balancing to 5.8% or 6% would require the Company to acquire additional gas supply assets, which would come at an additional cost that no party has factored into this proceeding.<sup>299</sup> UGI Gas Statement in Support at 45.

The Joint Petitioners have agreed that, effective November 1, 2020, the applicable daily balancing tolerance shall be four and one-half (4.5) percent.<sup>300</sup> UGI Gas asserts that this represents a result supported by the record evidence presented. UGI Gas Statement in Support at 45.

#### 4. Rate NNS

The Company's filing included rates for No Notice Service (NNS). Rate NNS is currently an optional daily balancing service offered by the Company to Non-Choice transportation customers. It allows a customer to elect a balancing tolerance greater than the standard basic balancing provided by the Company. A customer is able to make a Rate NNS election up to its Daily Firm Requirement (DFR) or Maximum Daily Quantity (MDQ) contract demand level.<sup>301</sup> The Company proposed to merge its existing daily balancing tolerances for its rate districts into a unified tolerance of 4.5%.<sup>302</sup> UGI Gas Exhibit DEL-9 showed the calculation of the combined NNS charge as proposed in this proceeding. UGI Gas Statement in Support at 45-46.

OCA proposed that PGC and Choice customers receive a contribution toward fixed costs associated with the storage assets utilized to provide NNS service and that the storage

---

<sup>296</sup> *Id.* at 8.  
<sup>297</sup> DE St. No. 1 at 12.  
<sup>298</sup> UGI Gas St. No. 12-R at 14.  
<sup>299</sup> *Id.*  
<sup>300</sup> Settlement ¶ 52.  
<sup>301</sup> UGI Gas St. No. 8 at 32-33.  
<sup>302</sup> *Id.* at p. 33.

trip charge should be adjusted to include the demand charges associated with providing service under NNS.<sup>303</sup> In its rebuttal testimony, the Company opposed the OCA's proposal, stating that it would be inappropriate to include firm service demand costs because the service provided under Rate NNS, in excess of the base amount of 4.5%, is provided on an interruptible basis.<sup>304</sup> If the OCA's cost allocation were adopted, the provision of NNS would need to be transformed into a firm service offering and the Company would need to acquire additional balancing assets.<sup>305</sup> UGI Gas Statement in Support at 46.

UGI Gas asserts that the Settlement resolves the issues raised by the OCA regarding Rate NNS with a reasonable compromise. The Joint Petitioners have agreed that the Company will adjust the storage trip cost in the calculation of Rate NNS charges to \$0.3483 per Mcf.<sup>306</sup> The resulting Rate NNS charges are provided in Paragraph 53. These rates provide a contribution toward fixed costs associated with the storage assets, consistent with OCA's testimony. Further, the Company agreed to clarify the tariff to show that Rate NNS service elections in excess of 4.5% are interruptible.<sup>307</sup> UGI Gas maintains that the clarification will ensure that customers are aware of the specific limitation of the Rate NNS service. UGI Gas Statement in Support at 46.

OCA notes that the Company proposed to unify charges for Rate NNS in this proceeding, and that it did not oppose unifying the Rate NNS charges.<sup>308</sup> However, OCA felt that the proposed unified charge was not reasonable. The proposed Rate NNS charge was based on a storage trip cost of \$0.1315 per Mcf. OCA witness Mierzwa explained:

The storage trip costs only include the variable costs associated with providing service under Rate NNS. PGC and non-Choice transportation customers are currently responsible for all of the demand charges associated with the interstate pipeline storage resources utilized to provide Rate NNS, and under UGI Gas' Rate NNS rate design, receive no contribution for the demand charges

---

<sup>303</sup> OCA St. No. 3 at 40-41.

<sup>304</sup> UGI Gas St. No. 8-R at 24.

<sup>305</sup> *Id.*

<sup>306</sup> Settlement ¶ 53.

<sup>307</sup> Settlement ¶ 53.

<sup>308</sup> OCA St. No. 3 at 39-40.

associated with the storage resources utilized to provide service under Rate NNS. This is unreasonable.<sup>309]</sup>

Mr. Mierzwa recommended that the storage trip cost be adjusted to include demand charges associated with providing service under Rate NNS on a 100 percent load factor basis, which would increase the storage trip cost to \$0.998 per Mcf.<sup>310</sup> OCA Statement in Support at 15-16.

The OCA submits that a storage trip cost of \$0.3483 per Mcf is a reasonable compromise that is between the OCA's and the Company's positions and will help to ensure that the Rate NNS charge is calculated in a way that treats PGC and non-Choice transportation customers fairly. As such, this term is in the public interest and should be approved. OCA Statement in Support at 16.

#### 5. Rate MBS

Rate MBS is a monthly balancing service offered by the Company that allows transportation imbalances of up to 10% for the month to be carried forward in the customer's MBS account for delivery of excess deliveries, or receipt of shortfalls, in subsequent months.<sup>311</sup> UGI Gas Exhibit DEL-10 provided the basis for the Rate MBS calculations, as well as the proposed MBS rates under Rates DS, LFD, and XD. UGI Gas Statement in Support at 47.

OCA submitted testimony supporting a proposal that costs included in development of MBS should include daily deliverability demand charges and that the monthly imbalance percentage in the calculation of MBS be increased to 5% to reflect the additional up-to 5 percent monthly imbalance tolerance provided under the Tariff.<sup>312</sup> UGI Gas opposed OCA's proposed change to Rate MBS.<sup>313</sup> The Company stated that it utilized the actual historic average monthly imbalance for the development of the charge, which it believed to be more appropriate

---

<sup>309</sup> *Id.* at 40.

<sup>310</sup> *Id.*

<sup>311</sup> UGI Gas St. No. 8 at 34.

<sup>312</sup> OCA St. No. 4 at 42-43.

<sup>313</sup> UGI Gas St. No. 8-R at 24.

than using the hypothetical maximum to derive cost causation.<sup>314</sup> Currently the actual imbalance percentage is 1.54%, and it was this percentage that was used to develop the proposed Rate MBS.<sup>315</sup> UGI Gas asserted that a 5% percentage would significantly overcharge Rate MBS customers for the service being provided.<sup>316</sup> UGI Gas Statement in Support at 47.

The Joint Petitioners have agreed to two specific changes to the calculation of Rate MBS. First, OCA's proposed inclusion of storage demand charges on a 100 percent load factor basis in the development of the rate will be adopted.<sup>317</sup> The resulting initial Rate MBS charges are identified in Paragraph 54 of the Settlement. The Settlement rates are in the public interest because they address the OCA's cost causation concerns. Second, the Company will update the average monthly imbalance utilized in the development of Rate MBS charges annually with the actual average monthly imbalance for the 12-month period ending September to determine the new Rate MBS charges effective December 1 each year. The Company will include the new Rate MBS charges as part of its annual PGC compliance filing.<sup>318</sup> UGI Gas maintains that these steps ensure that Rate MBS consistently reflects actual customer use, and is reviewable by the parties on an annual basis. UGI Gas Statement in Support at 47-48.

The OCA submits that these terms represent a reasonable compromise that will help to ensure that the Rate MBS charge is calculated in a way that treats PGC and non-Choice transportation customers fairly. As such, this term is in the public interest and should be approved. OCA Statement in Support at 17.

## 6. Acceptable Substitute Delivery Points

In addition to the Company's major supply sources, the Company receives natural gas supplies from local production wells, gathering systems, and other pipelines. As part of its direct case, the Company proposed that these additional supply sources (Acceptable Substitutes) may be used to fulfill a required interstate pipeline delivery for Non-Choice transportation

---

<sup>314</sup> *Id.*

<sup>315</sup> *Id.*

<sup>316</sup> *Id.*

<sup>317</sup> Settlement ¶ 54.

<sup>318</sup> Settlement ¶ 54.

deliveries. A summary of the Acceptable Substitutes was included as UGI Gas Exhibit AMB-6. UGI Gas Statement in Support at 48.

NGS/RESA and Direct Energy both opposed the inclusion of two of the identified Acceptable Substitutes: the Sunbury Pipeline and the Mt. Bethel Pipeline. Direct Energy expressed concerns that allowing Sunbury and Mt. Bethel Acceptable Substitute Delivery Point Status would give UGI Gas' affiliated marketer an advantage over other natural gas suppliers.<sup>319</sup> These included the impact of the price differential and the inability for other suppliers to obtain capacity on both of the pipelines.<sup>320</sup> NGS/RESA raised similar concerns in its testimony.<sup>321</sup> UGI Gas Statement in Support at 48.

The Company notes that it provided extensive testimony responding to these claims.<sup>322</sup> Specifically the Company described the Open Season process and the opportunity that all suppliers had to obtain capacity on these pipelines.<sup>323</sup> UGI Gas also identified how these pipelines provide needed supplies that address the Company's service obligations, and how the merger has impacted the use of these sources of supply.<sup>324</sup> The Company identified the benefits of alternative sources of supply, including the added reliability in the event of an incident of force majeure on an existing supply source.<sup>325</sup> Finally, UGI Gas produced significant evidence that the claims regarding price differential were not accurate.<sup>326</sup> UGI Gas Statement in Support at 48-49.

The Joint Petitioners have agreed that Company's proposal is accepted with the following qualifications. First, the Company will delay implementation of the interconnections with the Sunbury Pipeline and Mt. Bethel Pipeline as Acceptable Substitute Delivery Points for Non-Choice transportation customer deliveries until November 1, 2023, provided that those points may be used for purchased gas cost obligations and Choice related peaking and delivered

---

<sup>319</sup> DE St. No. 1 at 4-11.

<sup>320</sup> *Id.* at 7, 9-10.

<sup>321</sup> NGS/RESA St. No. 1 at 15-21.

<sup>322</sup> UGI Gas St. No. 12-R at 1-12.

<sup>323</sup> UGI Gas St. No. 12-R at 2-3, 8-9.

<sup>324</sup> *Id.* at 3-5.

<sup>325</sup> *Id.* at 7.

<sup>326</sup> *Id.* at 10-12.

services.<sup>327</sup> Second, UGI Gas shall provide written notice on its Gas Management Website of any proposed interconnection points within thirty (30) days of the execution of an Interconnection Agreement with the Company where the interconnecting entity elects to have the Interconnection Point included as an Acceptable Substitute Delivery Point. Such notice will include a posting of the interconnecting entity's name and contact information with the express goal of allowing NGSs sufficient opportunity to consider adjustments to their supply plans.<sup>328</sup> UGI Gas Statement in Support at 49.

UGI Gas asserts that these settlement provisions are in the public interest because they provide a better competitive environment for customers, without limiting the Company's ability to meet its basic supply needs, particularly during peak winter periods. Further, these terms will provide more transparency and clarity as the Company continues to look for ways to provide more supply sources into its system in order to provide access to lower cost gas to customers. UGI Gas Statement in Support at 49.

Direct Energy notes that its witness, Mr. Magnani, provided a number of recommendations for revising UGI Gas' Sunbury and Mt. Bethel Acceptable Substitutes proposal in a manner that would provide NGSs with more delivery options, benefit UGI Gas' customers, and not result in an unfair competitive advantage to UGI Gas' affiliate. Of note, Mr. Magnani recommended that UGI Gas could merge its proposed Southeast and Southwest regions into one pool, thereby resulting in delivery options east and west of Dauphin and York being available to all suppliers, regardless of customer location.<sup>329</sup> Direct Energy Statement in Support at 4.

Direct Energy agrees that these settlement provisions, in addition to the Company's agreement to merge its Southeast and Southwest regions,<sup>330</sup> provide a reasonable compromise to the Company's Sunbury and Mt. Bethel Acceptable Substitutes proposals and the recommendations of Mr. Magnani. The delayed implementation of the proposal will provide an

---

<sup>327</sup> Settlement ¶ 55.

<sup>328</sup> Settlement ¶ 55.

<sup>329</sup> Direct Energy St. 1-SR at 10- 13.

<sup>330</sup> Settlement ¶ 60.

opportunity for the establishment of other interconnection points which may provide NGSs with the opportunity to bid on capacity that would enable them to obtain low cost Marcellus supply to meet delivery requirements in the Company's proposed Southeast region. Further, the Settlement ensures that NGSs will receive timely notice of any proposed interconnection points that may be used as Acceptable Substitute Delivery Points. If, prior to the implementation of the Sunbury and Mt. Bethel Acceptable Substitutes proposals, NGSs are provided with the opportunity to obtain supply on interconnect(s) that would give them the same advantages afforded to UGIES under the Sunbury and Mt. Bethel proposals, then the concerns raised by Mr. Magnani may be avoided. Specifically, the availability of capacity on future interconnects that can be used to meet delivery requirements in the Company's Southeast region could provide NGSs with more delivery options, benefit UGI Gas' customers, and not result in an unfair competitive advantage to UGI Gas' affiliate. Additionally, the Company's proposal to merge its Southeast and Southwest regions helps to ensure that some level of competition may continue in the Company's Southeast region, although the Company's new delivery requirements enable only up to 8% of Texas Eastern supplies to be delivered to meters west of Dauphin and York. Direct Energy Statement in Support at 6-7.

## 7. Capacity Assignments

UGI Gas' direct case included proposed uniform rules for capacity assignment that essentially adopt rules prevailing in the current North Rate District and extend them to areas encompassed in the current South and Central Rate Districts.<sup>331</sup> These rules help smaller transportation customers obtain access to primary firm transportation capacity and help UGI Gas ensure that large numbers of smaller volume customers will not violate balancing tolerances (and potentially need to be physically disconnected from the UGI Gas system to maintain system reliability) in the event interstate pipeline deliveries to secondary delivery points are curtailed, which is an increasingly common occurrence.<sup>332</sup> UGI Gas Statement in Support at 49-50.

---

<sup>331</sup> UGI Gas St. No. 12 at 14.

<sup>332</sup> *Id.*

UGI Gas notes that OCA did not agree with the Company's proposal, including the ability of Rate DS, LFD, and XD customers to have preferential access to UGI Gas' lower cost capacity resources with PGC and Choice transportation customers being held responsible for the higher demand charges associated with the Company's peaking service contracts.<sup>333</sup> OCA also proposed that the Company's weighted average cost of demand (WACOD) should be revised to include peaking contract demand charges.<sup>334</sup> Finally, OCA proposed that Rate XD customers should be assessed charges for released capacity based on the revised WACOD calculation at the time their contracts expire.<sup>335</sup> UGI Gas Statement in Support at 50.

UGI Gas disagreed with the OCA's proposal for the following reasons: (1) the cost of capacity charged to large transportation customers is equitably based on the services used by those rate classes; (2) OCA's recommendation would require renegotiation of large transportation service agreements, which were negotiated based on the current capacity charge methodology that has been in place since prior to UGI Gas' 1995 base rate proceeding at Docket No. R-00953297; and (3) increasing capacity charges could result in Rate XD customers with competitive alternatives leaving the Company's distribution system.<sup>336</sup> UGI Gas Statement in Support at 50.

The Settlement provides that, as of November 1, 2020, "[t]he WACOD charges for Rate DS shall include the associated demand charges for Peaking Services on a 100% percent basis, and the revised WACOD will be assessed to all Rate DS transportation customers."<sup>337</sup> This accepts the OCA's recommendation as to Rate DS customers. The Settlement further provides that "[t]he WACOD charges for Rate LFD shall include the associated demand charges of Peaking Services on a 50% percent basis, and the revised WACOD will be assessed to all Rate LFD customers electing assigned capacity."<sup>338</sup> While this term only includes 50% of peaking services, the OCA submits that this represents a reasonable compromise and ensures that Rate

---

<sup>333</sup> OCA St. No. 3, at 44-45.

<sup>334</sup> *Id.* at 44.

<sup>335</sup> *Id.* at 45.

<sup>336</sup> UGI Gas St. No. 12-R at 22.

<sup>337</sup> Settlement ¶ 56(a).

<sup>338</sup> Settlement ¶ 56(b).



LFD customers are being charged a more appropriate level of demand charges for peaking services. OCA Statement in Support at 18.

In order to ensure that the charges reflect the cost of gas that is used by Rate DS and LFD customers, the Settlement provides that:

The resulting WACOD charges under (i) and (ii) shall be reduced by the Economic Benefit of Peaking Service commodity supply defined in Rule 22A.6 (EBPS Credit), which shall be included as a monthly deduction (credit) to the WACOD calculation for Rate DS and Rate LFD customers on an actual experienced basis, subject to review and reconciliation through the 2021 PGC filing.<sup>339</sup>

Importantly, this term allows for review of the EBPS Credit as part of the Company's 2021 PGC proceeding. The new WACOD calculations will go into effect on November 1, 2020 and will be reviewed in the PGC case that will be filed on or about June 1, 2021. This will allow the parties to review approximately seven months of data to determine whether the crediting mechanism is functioning and being calculated appropriately based on actual experience. The Settlement further provides that this term will be implemented on a pilot basis, and will become a permanent program unless modified as proposed either by the Company or any other party for periods after December 1, 2021 (i.e. the effective date of rates resulting from the Company's 2021 PGC proceeding).<sup>340</sup> OCA notes that this preserves the OCA's rights and the rights of all other parties to challenge or modify the crediting mechanism as necessary based on actual data. OCA Statement in Support at 18-19.

The OCA submits that the Capacity Assignment term represents a reasonable compromise that helps to ensure that costs are being appropriately assigned to Rate DS and Rate LFD customers. This term also provides the OCA and other parties the opportunity to review and challenge or modify the crediting mechanism in future proceedings once additional data is available. As such, the OCA submits that this term is in the public interest and should be approved. OCA Statement in Support at 19.

---

<sup>339</sup> Settlement ¶ 56(c).

<sup>340</sup> Settlement ¶ 56(d).

UGI Gas asserts that the terms agreed upon in the Settlement reflect a balancing of the interests of all parties, including concessions made by all sides. The Company believes that these terms will ensure a process and rate that are equitable to all customers. In addition to the Settlement terms modifying the WACOD, the Company's capacity assignment proposals for Rate XD are accepted as filed.<sup>341</sup> UGI Gas Statement in Support at 51.

#### 8. Non-Choice Excess Imbalances

UGI Gas' imbalance and cash-out provisions were reviewed in the context of its development of proposed unified Choice and Non-Choice transportation rules during the September 30, 2018 collaborative.<sup>342</sup> The Company did not propose any changes to the monthly balancing tolerances, which are currently set at ten percent (10%) for each Rate District, or the policies around the cash-out process.<sup>343</sup> UGI Gas Statement in Support at 51.

NGS/RESA proposed adjustments to the Company's cash-out policies in its direct testimony.<sup>344</sup> NGS/RESA witness Greenholt-Tasto stated that she believed that the current system used by the Company, which involves the cash-out of the entire bank when the bank exceeds the 10% threshold, is punitive in its pricing methodology, and that taking the entire bank causes the supplier to be doubly harmed.<sup>345</sup> She proposed that UGI Gas should be required to stop zeroing-out the customer's full balancing bank and only do so with the portion that is outside the tolerance band.<sup>346</sup> While Direct Energy did not file any direct testimony on this topic, it supported the NGS/RESA position in its rebuttal testimony.<sup>347</sup> UGI Gas Statement in Support at 51.

The Company did not agree with the NGS/RESA proposal.<sup>348</sup> The Company noted that NGS Non-Choice monthly imbalances may affect PGC customers in ways that are

---

<sup>341</sup> Settlement ¶ 56.

<sup>342</sup> UGI Gas St. No. 12 at 13.

<sup>343</sup> *Id.*

<sup>344</sup> NGS/RESA St. No. 1 at 9-13.

<sup>345</sup> NGS/RESA St. No. 1 at 10.

<sup>346</sup> *Id.* at 11.

<sup>347</sup> DE St. No. 1-R at 3.

<sup>348</sup> UGI Gas St. No. 12-R at 19.

difficult to calculate precisely.<sup>349</sup> This is for two reasons. First, to accommodate a monthly imbalance, PGC pipeline or storage capacity may be used to deliver additional gas supplies to the Company's system to accommodate a shortfall, or PGC pipeline or storage assets may need to be used to accommodate and store monthly over-deliveries. Second, PGC commodity costs may be impacted. These cost impacts may occur at any level of monthly imbalance.<sup>350</sup> UGI Gas Statement in Support at 52.

As a result of negotiations, the Joint Petitioners have agreed on a proposal that strikes a balance between the positions advanced in this case. The Joint Petitioners have agreed that UGI Gas will adjust its Non-Choice excess imbalance policies in two ways.<sup>351</sup> First, the Company will change its cash-out pricing methodology effective on and after November 1, 2020, to adopt the Company's proposed delivery region-based cash-out pricing methodology. Prior to November 1, 2020, the Company will maintain its existing methodology.<sup>352</sup> Second, effective November 1, 2020, the compliance tariff specifies a cash-out methodology that cashes out, for both long and short positions, only the increment that is greater than 5% (rather than cash out the entire balance) once the 10% threshold is exceeded, but shall otherwise be as proposed by Company.<sup>353</sup> Prior to November 1, 2020, the Company's cash-out rules will apply unchanged. UGI Gas Statement in Support at 52.

UGI Gas notes that the Settlement provides the Company with a transition period, which will provide time to take necessary preparations in order to implement the new policy in a way that does not negatively impact customers or the availability of supply. Making these modifications will align UGI Gas' cash-out policies with other NGDCs.<sup>354</sup> UGI Gas maintains that these changes provide an appropriate incentive to Non-Choice transportation customers and NGSs to design their supply portfolio and operations to stay within the permitted free monthly imbalance tolerances, while also providing reimbursement to the PGC for potential cost impacts

---

<sup>349</sup> *Id.* at 18.

<sup>350</sup> *Id.*

<sup>351</sup> Settlement ¶ 57.

<sup>352</sup> *Id.*

<sup>353</sup> *Id.*

<sup>354</sup> NGS/RESA St. No. 1 at 9-13.

that may occur as a result of accommodating monthly imbalances. UGI Gas Statement in Support at 52-53.

Direct Energy notes that the Settlement provides that, for the post-transition period, the Company will specify a cash-out methodology that cashes out only the increment that is greater than 5% (rather than cash out the entire balance as is the current practice) once the 10% threshold is exceeded.<sup>355</sup> This Settlement provision provides a reasonable resolution to the positions advanced by UGI Gas (cashing out the entire balance) and those of Direct Energy and NGS/RESA (cashing out only the portion of the balance that is outside the tolerance band). It also helps to alleviate the concerns raised by Direct Energy and NGS/RESA that cashing-out the entire balance is punitive, grossly unfair to suppliers, and inconsistent with the practices of other Pennsylvania utilities. For these reasons, Direct Energy maintains that the Settlement is in the public interest and in the interest of NGSs operating in UGI Gas' service territory. Direct Energy Statement in Support at 7-8.

#### 9. Supply Nomination Process

As part of a comprehensive settlement package, there were a number of items agreed to by the Joint Petitioners to improve the UGI Gas transportation program. The Joint Petitioners have agreed to take steps to make the supply nomination process less burdensome on participating NGSs. Specifically, this includes adjusting the deadline for certain nominations, and transitioning to a common DUNS number for customer and delivery nominations.<sup>356</sup> These two items were identified by NGS/RESA as constraints that produce unnecessary burdens on suppliers without any benefit to customers.<sup>357</sup> They can be addressed by the Company without any negative impact on customers.<sup>358</sup> The Company will institute a common DUNS number for the purpose of making customer and delivery nominations under the Choice transportation program effective November 1, 2019, and will institute a common DUNS number for the

---

<sup>355</sup> Joint Petition at ¶ 57.

<sup>356</sup> Settlement ¶ 58.

<sup>357</sup> NGS/RESA St. No. 1 at 13-14.

<sup>358</sup> UGI Gas St. No. 12-R at 19-22.

purpose of making customer and delivery nominations under the consolidated Non-Choice transportation program effective November 1, 2020. UGI Gas Statement in Support at 54-55.

Direct Energy notes that these Settlement provisions are consistent with the recommendations of NGS/RESA witness Greenholt-Tasto, which were also supported by Direct Energy witness Magnani. These provisions are beneficial in ensuring that NGSs receive information related to supply nominations in a timely manner, lessening the likelihood of mistakes, and making the nomination process more efficient. In this regard, Direct Energy asserts that the Settlement is in the public interest. Direct Energy Statement in Support at 8.

#### 10. Daily Metering Expansion

Currently, not all of the Non-Choice transportation customers in the South Rate District have daily metering of gas usage, while every Non-Choice transportation customer in the North and Central Rate Districts do have daily metering.<sup>359</sup> As part of its direct case, UGI Gas proposed a schedule for the installation of daily metering facilities for all Non-Choice transportation customers and to thereafter transfer all Non-Choice transportation customer accounts to calendar month billing and balancing pools.<sup>360</sup> No party opposed the Company's proposal, although OCA did propose certain adjustments to the accounting treatment of the program.<sup>361</sup> UGI Gas Statement in Support at 53.

The Joint Petitioners have agreed that the Company's proposal is accepted, as discussed in the Direct Testimony of Shaun Hart, UGI Statement No. 9. The Company has agreed to exercise best efforts to transfer the remaining Non-Choice transportation accounts to calendar month billing and balancing pools by no later than November 1, 2020.<sup>362</sup> Installing daily metering facilities for these customers would allow them to be pooled with other transportation customers who are billed on a calendar month cycle. UGI Gas notes that the use of billing pools enables NGSs to nominate gas supplies and to balance gas deliveries with

---

<sup>359</sup> UGI Gas St. No. 9 at 28.

<sup>360</sup> *Id.* at 28-29.

<sup>361</sup> OCA St. 1 at 21-22.

<sup>362</sup> Settlement ¶ 59.

consumption on a pool-wide, rather than an individual customer account, basis. The expansion of daily metering would facilitate customer Choice by making it easier for NGSs to manage all customer pools on a calendar month basis on UGI Gas' system.<sup>363</sup> UGI Gas Statement in Support at 53.

### 11. Merger of Southeast and Southwest Regions

As a result of the merger, the Company reviewed the reliability requirements of a unified UGI Gas system to develop delivery regions.<sup>364</sup> The regions and delivery requirements proposed at the collaborative are shown in UGI Gas Exhibit AMB-5. In developing these, the Company was mindful of the fact that reducing the number of customer regions NGSs are required to manage could be beneficial to NGSs.<sup>365</sup> As a result, UGI Gas proposed to reduce the number of regions having differing delivery requirements from twelve to four, reflecting gas delivery capabilities without regard to existing rate district boundaries, and proposed delivery rules for each of these four regions.<sup>366</sup> UGI Gas Statement in Support at 54.

The Joint Petitioners have agreed to the merger of the Southeast and Southwest delivery regions.<sup>367</sup> UGI Gas asserts that merging these two regions will further simplify and streamline the nomination process for NGSs. UGI Gas Statement in Support at 54. As previously noted, Direct Energy supports the merger as it will help to ensure that some level of competition may continue in the Company's Southeast region, although the Company's new delivery requirements enable only up to 8% of Texas Eastern supplies to be delivered to meters west of Dauphin and York. Direct Energy Statement in Support at 7. NGS/RESA submits that this merger will provide more flexibility in moving deliveries into the system. NGS/RESA Statement in Support at 4.

---

<sup>363</sup> UGI Gas St. No. 9 at 29-30.

<sup>364</sup> UGI Gas St. No. 12 at 8.

<sup>365</sup> *Id.* at 8-9.

<sup>366</sup> *Id.* at 9.

<sup>367</sup> Settlement ¶ 60.

## 12. Eligible Customer Delivery List

The Joint Petitioners have agreed to modify the UGI Gas Eligible Customer List to provide associated customer delivery region designations. UGI Gas will continue to provide certain information concerning Choice customers in accordance with the Commission's customer information disclosure regulations at 52 Pa. Code §62.78. For Non-Choice customers, the Company will post a listing of account numbers and their respective delivery region designations on its website.<sup>368</sup> UGI Gas maintains that by providing this information, Non-Choice NGSs may readily determine the delivery regions of their current or prospective customers (if the customer provides their customer account number information). The posting will be made on a password protected website accessible only by authorized Company personnel and licensed NGSs qualified to do business on the UGI Gas system.<sup>369</sup> UGI Gas Statement in Support at 55.

Direct Energy asserts that this provision, along with Producer List provision within the Settlement,<sup>370</sup> will help to ensure that suppliers have the necessary information required to meet delivery requirements in the Company's service territory in an efficient and effective manner. Direct Energy Statement in Support at 8. NGS/RESA maintains that this provision of the Settlement will make it easier for suppliers to accurately price for these customers by better understanding the delivery requirements. NGS/RESA Statement in Support at 4.

## 13. Producer List

The Joint Petitioners have agreed that UGI Gas shall release to suppliers a full list of producers directly connected to the UGI Gas system, by posting on a password protected website accessible only by authorized Company personnel and licensed NGSs.<sup>371</sup> UGI Gas posits that this information may assist marketers in identifying additional sources of supply located in proximity to the UGI Gas distribution system. UGI Gas Statement in Support at 55.

---

<sup>368</sup> Settlement ¶ 61.

<sup>369</sup> *Id.*

<sup>370</sup> Settlement ¶ 62.

<sup>371</sup> Settlement ¶ 62.

Direct Energy asserts that this provision, along with Eligible Customer List provision within the Settlement,<sup>372</sup> will help to ensure that suppliers have the necessary information required to meet delivery requirements in the Company’s service territory in an efficient and effective manner. Direct Energy Statement in Support at 8.

#### 14. Access to Storage

The Joint Petitioners have agreed that the Company commits to analyze the capability to provide a virtual storage proposal (VSP) to NGSs who provide “Choice” natural gas supply service on the UGI Gas distribution system that will allow suppliers to manage injections and withdrawals of supply through nominations made to the Company.<sup>373</sup> Licensed NGSs have expressed an interest in a virtual storage proposal since they believe that it could provide for lower overall gas costs for their customers if they were allowed more flexibility in determining injection and withdrawal volumes during the summer and winter seasons. To the extent that such a proposal would be feasible, it may fuel additional competition and lower gas costs, both of which are good for customers. However, there are many complexities and potential costs associated with such a program, which need to be fully analyzed. The Settlement provides a process and approach for this analysis, which UGI Gas notes is intended to make sure that the results of the analysis provide necessary insight on this issue for all parties. UGI Gas Statement in Support at 55-56.

Direct Energy notes that these Settlement provisions enable the Company to explore possible solutions to the concerns expressed by Direct Energy witness Magnani and NGS/RESA witness Greenholt-Tasto related to the Company’s practice of providing virtual storage to suppliers. As noted by Direct Energy and NGS/RESA, the Company’s current practice does not provide suppliers with the same advantages of physical storage and provides a disadvantage to Choice Transportation customers who will be unable to take advantage of lower prices that are available with supplier access to physical storage. As such, Direct Energy submits that these Settlement provisions, which allow the Company to explore mechanisms to address

---

<sup>372</sup>

*Id.*

<sup>373</sup> Settlement ¶ 63.



supplier concerns, is in the public interest and the interest of UGI Gas' ratepayers. Direct Energy Statement in Support at 9.

NGS/RESA notes that the access to storage provision within the Settlement is extremely important to the supplier parties, as it has the potential to provide suppliers with the ability to nominate injections to and withdrawals from storage on the UGI Gas system, something they have long desired. While UGI Gas has no obligation to implement a virtual storage program, the fact that it will have to be studied and rationales must be provided means they are one step closer to the goal of optimizing storage for customers. The ability for suppliers to manage the storage assets their customers already pay for, which is what the utility does today, will allow them to buy gas when it is less expensive and inject it into storage for use when it is more scarce and thus more expensive. This would allow suppliers to price offers more competitively with default service and provide real value to customers. Currently, UGI Gas provides an index priced bundled sales product in lieu of actual storage, but this is an ineffective substitute and provides little ability for any price separation from default service. NGS/RESA notes that this is a major concession for UGI Gas that has long resisted any movement toward allowing suppliers to have any access, however minute, to storage. NGS/RESA Statement in Support at 5.

## F. Accounting

### 1. In General

In the Settlement, the Joint Petitioners agreed to the settlement terms regarding accounting treatments for certain costs and expenses including UGI Gas' environmental cost recovery mechanism; ADIT/EDFIT; repairs allowance; UNITE/Hypercare; accounting for mechanical tee programs; and, depreciation rates. The specifics of the terms of the Settlement are fully set forth in the Joint Petition at paragraphs sixty-four (64) through sixty-nine (69) and will not be restated here. I&E Statement in Support at 25.

I&E submitted testimony regarding UGI Gas' proposed environmental remediation expense<sup>374</sup> but did not submit testimony regarding the remaining accounting issues identified above. I&E shares the concerns of the interested Joint Petitioners and was involved in the settlement negotiations regarding these issues throughout this proceeding. I&E does not oppose these settled upon terms regarding the accounting treatment for certain costs and expenses as a full and fair compromise that provides regulatory certainty and a resolution of these issues, all of which facilitates the Commission's stated preference favoring negotiated settlements as in the public interest. I&E Statement in Support at 25.

## 2. Environmental Cost Recovery

### a. Normalized Allowance

UGI Gas' environmental remediation expense claim enables the Company to fully recover the costs incurred in connection with its obligations under Consent Orders and Agreements (COAs) with the Pennsylvania Department of Environmental Protection (DEP) to remediate former manufactured gas plants (MGPs). In its filing, UGI Gas claimed \$4.188 million for prospective environmental remediation expense based on the simple average of the last three years of cash expenditures for MGP remediation expense.<sup>375</sup> No party challenged the prospective environmental remediation expense in the Company's filed case. UGI Gas Statement in Support at 9.

In rebuttal, the Company explained that its position in direct testimony had understated the annual cost because the annual remediation expense from one of the three rate districts incorporated costs predating the effective date of the applicable COA and therefore was not indicative of annual remediation expense for that rate district.<sup>376</sup> The corrected amount of environmental remediation expense presented in the Company's rebuttal case was \$4.8 million per year.<sup>377</sup> UGI Gas Statement in Support at 9.

---

<sup>374</sup> I&E St. No. 1 at 26-30; I&E St. No. 1-SR at 26-28.

<sup>375</sup> UGI Gas St. No. 3 at 17-19.

<sup>376</sup> UGI Gas St. No. 2-R at 17-18.

<sup>377</sup> *Id.*

The Settlement includes an annual amount of \$4.188 million for recovery of future environmental costs as a compromise to its rebuttal position.<sup>378</sup> The \$4.188 million annual remediation expense is consistent with the unchallenged amount set forth by UGI Gas in its direct case and is reasonable. Further, the Settlement provides that annual differences between \$4.188 million and actual expenditures shall be deferred as a regulatory asset (where expenditures are greater than \$4.188 million per year) or as a regulatory liability (where expenditures are less than \$4.188 million on an annual basis) and accumulated for book and ratemaking purposes until UGI Gas' next base rate case.<sup>379</sup> This cost treatment should protect customers from over-recoveries and UGI Gas from under-recoveries for this non-revenue producing and non-expense reducing category of expense. UGI Gas submits that this Settlement provision is in the public interest because it is consistent with the Company's method for calculating prospective remediation costs and, as discussed below, the historic ratemaking treatment of its annual remediation expense differences. UGI Gas Statement in Support at 9-10.

b. Amortization of Prior Balances

In prior cases, the Commission approved a reconciliation mechanism that permitted the Company to accumulate, defer and obtain ratemaking recovery for environmental costs incurred in compliance with the COAs that exceeded established annual ratemaking levels less any cost shortfall in years where actual expenditures fell below that level. In this proceeding, UGI Gas proposed to recover \$6.186 million of deferred costs over a three-year amortization period.<sup>380</sup> In addition, the Company proposed continued amortization of a previously approved unamortized amount of \$1.917 million. Combined, this \$8.103 million unrecovered balance represents the difference between the amount of MGP remediation expenditures incurred under the COAs over the period since each of the rate district's most recent rate cases and the amount of such expenditures included for ratemaking purposes over the same period for each of the three rate districts, in accordance with the ratemaking reconciliation mechanism approved by the Commission for use by each of the three rate districts.<sup>381</sup> I&E

---

<sup>378</sup> Settlement ¶ 64.

<sup>379</sup> *Id.*

<sup>380</sup> UGI Gas St. No. 3 at 17-19.

<sup>381</sup> *Id.*

recommended a five-year amortization period for the \$6.186 million amount, rather than a three-year period, based on the Company's prior use of a five-year amortization period.<sup>382</sup> UGI Gas Statement in Support at 10.

In the Settlement, the Joint Petitioners agreed to include an annual amount of \$1.621 million for recovery, based on a five-year amortization period, based on a total balance of \$8.103 million of deferred environmental costs that had accumulated, as set forth on UGI Gas Exhibit A, Schedule D-8, lines 9 and 13.<sup>383</sup> UGI Gas submits that this Settlement provision is in the public interest because it is consistent with the deferral reconciliation mechanism authorized by the Commission. In addition, this cost treatment should protect customers from over-recoveries and UGI Gas from under-recoveries for this non-revenue producing and non-expense reducing category of expense. Finally, this provision of the Settlement reflects a balance between the litigation positions of I&E and the Company. UGI Gas Statement in Support at 10-11.

### 3. ADIT/EDFIT

In its initial rate filing, UGI Gas included a FPPTY Accumulated Deferred Income Tax (ADIT) calculation, based upon a pro-rationing methodology required under Treasury Regulation 1.167(l)-1(h)(6)(ii) that is necessary to be in compliance with Internal Revenue Service (IRS) normalization requirements.<sup>384</sup> As part of the Settlement, the Joint Petitioners agreed to accept the Company's ADIT and pro-rationing methodology as required by Treasury Regulation 1.167(l)-1(h)(6)(ii).<sup>385</sup> In addition, the Company's method to amortize Excess Accumulated Deferred Federal Income Taxes (EDFIT) according to the Average Rate Assumption Method (ARAM) is accepted.<sup>386</sup> UGI Gas Statement in Support at 11.

UGI Gas maintains that this Settlement provision is in the public interest because it reflects that the Company's claim is based on a FPPTY and ensures compliance with IRS

---

<sup>382</sup> I&E St. No. 1 at 29-30.

<sup>383</sup> Settlement ¶ 64.

<sup>384</sup> UGI Gas St. No. 11 at 9-10.

<sup>385</sup> Settlement ¶ 65.

<sup>386</sup> *Id.*

normalization requirements. The Settlement further provides that, absent a change in federal or state law, regulation, judicial precedent or policy, the remaining unamortized EDFIT balance will continue as a reduction to rate base in all future proceedings until the full amount is returned to ratepayers. UGI Gas Statement in Support at 11.

#### 4. Repairs Allowance

In its filing, UGI Gas proposed to continue to normalize the repairs tax expense deduction for federal income tax purposes over the book life of the plant giving rise to the deduction.<sup>387</sup> No party challenged or otherwise opposed the Company's proposal. UGI Gas Statement in Support at 12.

As part of the Settlement, the Joint Petitioners agree that all capitalized repairs deductions claimed on a tax return have been normalized for ratemaking purposes and the appropriate related amount of tax effect of those deductions has been reflected as ADIT as a reduction to UGI Gas' rate base.<sup>388</sup> The Settlement continues the practice that UGI Gas has followed since its adoption of the current methodology used for calculating the repairs allowance. Normalization benefits customers by ensuring that they receive a fair portion of the benefit of the repairs allowance deduction through rate base, over the life of the plant giving rise to the deductions, regardless of when UGI Gas files a rate case. Moreover, normalizing the repairs allowance deduction provides an important source of cash flow to UGI Gas that can be used to support UGI Gas' large, related capital spending program and reduce outside borrowing. UGI Gas Statement in Support at 12.

#### 5. Unite/Hypercare

In its filing, UGI Gas proposed to capitalize certain costs incurred to provide post-implementation support following the deployment of the new data base assets in connection with

---

<sup>387</sup> UGI Gas St. No. 11 at 11.

<sup>388</sup> Settlement ¶ 66.

the Company's implementation and use of cloud-based information services.<sup>389</sup> Some portion of these costs can already be capitalized under generally accepted accounting principles (GAAP), such as modifications to existing software that result in additional functionality. However, other post-implementation support efforts such as break/fix resources or resources dedicated to troubleshooting issues cannot currently be capitalized under GAAP. In this case, however, the Company is requesting Commission approval to record these costs as a long-lived capital asset.<sup>390</sup> Capitalization is appropriate, since, as described in the direct testimony of UGI Gas witness Mattern, Hypercare is in lieu of running extended pre-implementation parallel testing operations, whose costs can be capitalized under GAAP and can be as costly, if not more costly, than a Hypercare solution.<sup>391</sup> UGI Gas Statement in Support at 12-13.

No party challenged or otherwise opposed the Company's proposed accounting treatment for UNITE/Hypercare. As such, the Joint Petitioners agreed that the Company shall be permitted to capitalize the costs associated with these two programs, as described on pages 20-22 of the direct testimony of Megan Mattern, UGI Gas Statement No. 4, and that the Company shall begin depreciation of the costs after the systems are placed in service.<sup>392</sup> UGI Gas maintains that this Settlement provision is in the public interest because it recognizes that the new databases will provide benefits to customers over extended periods of time and not just the period in which the costs are incurred. It also recognizes that post-implementation technical support is part of the necessary process to achieve the functionality anticipated from the new technology. UGI Gas Statement in Support at 13.

## 6. Accounting for Mechanical Tee Programs

Pursuant to UGI Gas' Distribution Integrity Management Program, the Company has identified an elevated risk associated with mechanical tees. Mechanical tees are a type of fitting formerly used for branching plastic service lines from plastic mains. Over time, the mechanical connections affixing the tees to the main may fail which can result in a hazardous

---

<sup>389</sup> UGI Gas St. No. 4 at 17-22.

<sup>390</sup> *Id.* at 21.

<sup>391</sup> *Id.* at 22.

<sup>392</sup> Settlement ¶ 67.

leak. As an accelerated action to mitigate this distribution system risk, the Company implemented a remediation program. In the remediation process, tees are excavated, evaluated, and remediated by replacing the original nylon bolts with new non-corrosive stainless steel bolts. UGI Gas Statement in Support at 13.

Settlement Paragraph 68 permits the Company to capitalize the costs of its mechanical tee program. Effective October 1, 2018, the Company will be permitted, for book accounting purposes, to record the costs associated with its mechanical tee remediation program as capital investment.<sup>393</sup> UGI Gas asserts that this proposal is in the public interest because it recognizes that the replacement of mechanical tees is designed to extend the service life of related pipeline and appurtenances, plays an important safety role in the operation of the UGI Gas system, and recognizes that the Company has undertaken a comprehensive, multi-year, program to address this safety issue. Therefore, capitalization of the entire program, effective October 1, 2018, is appropriate. UGI Gas Statement in Support at 14.

## 7. Depreciation Rates

UGI Gas' depreciation studies, accrued depreciation claim, and annual depreciation expense claim were set forth in UGI Gas Statement No. 7 and UGI Gas Exhibits C (Historic), C (Future), and C (Fully Projected). No party filed testimony in opposition to the Company's claimed depreciation. UGI Gas Statement in Support at 14.

As part of the Settlement, the Joint Petitioners agree to accept UGI Gas' as-filed depreciation rates.<sup>394</sup> UGI Gas submits that this Settlement provision is in the public interest because it properly accounts for the Company's outlook and plans, and is consistent with the depreciation procedure used by most other Pennsylvania utilities. UGI Gas Statement in Support at 14.

---

<sup>393</sup> Settlement ¶ 68.

<sup>394</sup> Settlement ¶ 69.

## G. Safety

I&E submitted detailed testimony regarding UGI Gas' Distribution Integrity Management Program (DIMP), UGI Gas' leak management, pipeline replacement scheduling, and, pipeline replacement restoration costs.<sup>395</sup> I&E noted that UGI Gas proposed to continue to maintain a single combined DIMP for all operating districts.<sup>396</sup> However, in recognition of the differing system characteristics, UGI Gas stated it intends to continue assessing, monitoring, and reporting risk separately for each operating district.<sup>397</sup> I&E, in turn, recommended that UGI Gas not only conduct separate risk analyses for each of the three districts but should also create a combined system-wide calculated risk for all assets across company territories into one master DIMP record.<sup>398</sup> I&E also recommended that UGI Gas provide all the DIMP scenarios during the I&E DIMP audit.<sup>399</sup> I&E Statement in Support at 26-27.

I&E also submitted testimony focused on discussing strategies that seek to reduce construction and restoration costs associated with pipeline replacement projects.<sup>400</sup> In that regard, I&E recommended that UGI Gas take affirmative steps to reduce restoration costs through efforts including, but not limited to, coordinating pipe replacement projects with other street projects and replacing pipe using trenchless construction techniques where technically and economically feasible.<sup>401</sup> Additionally, I&E recommended that UGI Gas meet with the Commission's Safety Division, and any other interested parties, within 60 days following the final order in this proceeding, to discuss strategies that seek to reduce construction and restoration costs associated with all pipeline replacement projects, and that any savings realized from reduced construction and restoration costs be invested into additional pipeline replacement projects.<sup>402</sup> Finally I&E recommended that UGI Gas agree to meet with the Commission's Safety Division and other parties to identify increasing state, county, and municipal requirements that exceed the Pennsylvania Department of Transportation restoration standards and add to the

---

<sup>395</sup> I&E St. No. 5 at 2-13; I&E St. No. 6 at 1-17; I&E St. No. 6-SR at 1-3.

<sup>396</sup> I&E St. No. 5 at 12.

<sup>397</sup> *Id.*

<sup>398</sup> I&E St. No. 5 at 12.

<sup>399</sup> *Id.*

<sup>400</sup> I&E St. No. 6 at 6-17; I&E St. No. 6-SR at 1-3.

<sup>401</sup> I&E St. No. 6 at 16.

<sup>402</sup> *Id.*



cost of pipeline replacements in an effort to develop coordinated potential responses to such requirements.<sup>403</sup> I&E Statement in Support at 27-28.

In the Settlement, the Company has agreed to continue conducting separate risk analyses for each of the three rate districts and will continue to maintain a combined system-wide calculated risk for all assets across company territories in one master DIMP record which will be utilized for LTIP prioritization purposes.<sup>404</sup> Through this process, UGI Gas will be able to continue to assess and address the condition of its distribution system, and particularly the need to replace aging mains. UGI Gas Statement in Support at 56-57.

In addition, UGI Gas has agreed to continue taking affirmative steps to reduce restoration costs, through efforts including, but not limited to, coordinating pipe replacement projects with other street projects, and replacing pipe using trenchless construction techniques where technically and economically feasible.<sup>405</sup> The Company explained that it has applied many approaches to combat the rising cost of restoration.<sup>406</sup> The Company will continue to take affirmative steps to reduce its restoration costs, which produces a direct benefit to ratepayers. UGI Gas Statement in Support at 57.

Finally, the Settlement provides for a one-time stakeholder meeting between UGI Gas and the Commission's Safety Division, and any other interested parties to this proceeding.<sup>407</sup> This meeting is for the purpose of eliciting input into potential strategies designed to reduce construction and restoration costs associated with pipeline replacement projects. UGI Gas submits that as restoration costs are a significant cost component of infrastructure replacement, any workable ideas will produce benefits to the public. UGI Gas Statement in Support at 57.

In consideration of all of the testimony presented and the various positions presented by the Company and the Joint Petitioners, I&E supports these settled upon terms as stated in the Joint Petition regarding the safety issues as a full and fair compromise that provides

---

<sup>403</sup>

*Id.*

<sup>404</sup>

Settlement ¶ 70.

<sup>405</sup>

Settlement ¶ 71.

<sup>406</sup>

UGI Gas St. No. 2-R at 7-9.

<sup>407</sup>

Settlement ¶ 72.

UGI Gas, the Joint Petitioners, affected ratepayers, and the Commission with regulatory certainty and a resolution of the safety related concerns raised by I&E, all of which is in the public interest. I&E Statement in Support at 28.

## H. Other Issues

### 1. Interruptible Customer Competitive Analysis

I&E submitted extensive testimony regarding the interruptible rate class tariff provisions and the interruptible customer competitive analysis.<sup>408</sup> I&E recommended two specific changes. First, the tariff should require the customer to provide a certification of the existence of the alternative fuel source to the Company.<sup>409</sup> Second, the tariff should require the Company to review the negotiated rate and alternative fuel source for Interruptible Service (IS) customers every five years.<sup>410</sup> I&E also recommended that the Company perform and provide a competitive alternative analysis for each IS customer in the next base rate case, and every five years thereafter.<sup>411</sup> I&E Statement in Support at 29.

I&E reasoned that IS service should be reviewed to determine if more revenue should be received. While the total revenue may exceed the cost in the current cost of service study, the Company did not provide the details of individual customers and rates to determine if all customers should be paying IS rates or rates that are higher.<sup>412</sup> Further, even though it can be argued that the Company has no incentive to short itself on IS revenue, particularly, in the short term between rate cases, the Company does have an incentive to gain as much IS revenue as it can because it keeps 100% of IS revenue, less incremental costs, until the next base rate case.<sup>413</sup> It also follows that the IS rate customers should be required to justify the lower IS rates they are receiving as a matter of fairness. I&E reasoned that no customer should be permitted to unfairly

---

<sup>408</sup> I&E St. No. 3 at 15-19, I&E Exh. No. 3, Schs. 6-10; I&E St. No. 3-SR at 14-21.

<sup>409</sup> I&E St. No. 3 at 17-19; I&E St. No. 3-SR at 14.

<sup>410</sup> *Id.*

<sup>411</sup> *Id.*

<sup>412</sup> I&E St. No. 3 at 17-18; I&E St. No. 3-SR at 18.

<sup>413</sup> I&E St. No. 3-SR at 20.

avoid paying tariffed rates.<sup>414</sup> I&E argued its recommendation that the competitive alternative be routinely justified will provide more certainty to the validity of the customer's competitive alternative.<sup>415</sup> Finally, I&E concluded that the Company and the Commission will be better informed concerning the IS rate the customer is being charged by regularly reviewing the customer's competitive alternative, and the customer will be required to periodically justify the continuation of paying IS rates.<sup>416</sup> I&E Statement in Support at 29-30.

In the Settlement, the Company agrees to maintain a competitive alternative analysis for each interruptible customer with alternate fuel capability every five years. The competitive alternative analysis will include twelve months of historical usage, the date the analysis was completed, and a reasonable proxy cost on an equivalent BTU basis the customer would incur to utilize the alternative fuel based on published index prices for the alternative fuel. The analysis will compare the IS rates each customer pays with the cost that customer would incur to utilize the alternative fuel. The competitive analysis for each customer will include a listing of actual interruptions with dates and duration in the past five years. The first Interruptible Customer Competitive Analysis will be provided in the next base rate case.<sup>417</sup> I&E Statement in Support at 28.

In consideration of all of the testimony presented and the various positions presented by the Company and the Joint Petitioners, I&E supports these settled upon terms as stated in the Joint Petition as a full and fair compromise that provides UGI Gas, the Joint Petitioners, affected ratepayers, and the Commission with regulatory certainty and a resolution of the IS rate customer competitive analysis issue, all of which is in the public interest. I&E Statement in Support at 30.

UGI Gas submits that this analysis will provide the parties with more comprehensive information regarding the competitive alternatives for UGI Gas' IS customers. Moreover, UGI Gas asserts that this analysis provides a reasonable approach to satisfy I&E's

---

<sup>414</sup> *Id.*

<sup>415</sup> *Id.*

<sup>416</sup> I&E St. No. 3 at 18; I&E St. No. 3-SR at 21.

<sup>417</sup> Settlement ¶ 73.

concerns about the quality of information regarding the Company's interruptible customers. UGI Gas Statement in Support at 58.

### I. Recommendation

I find the proposed Settlement to be reasonable and in the public interest. I therefore recommend approval without modification. The Settlement represents a just and fair compromise of the serious issues raised in this proceeding. After substantial investigation and discovery, the settling parties have reached a reasoned accord on a broad array of issues resulting in just and reasonable rates for gas service rendered by UGI Gas.

The Settlement is a "black box" settlement. This means that the parties could not agree as to each and every element of the revenue requirement calculations. The Commission has recognized that "black box" settlements can serve an important purpose in reaching consensus in rate cases:

We have historically permitted the use of "black box" settlements as a means of promoting settlement among the parties in contentious base rate proceedings. Settlement of rate cases saves a significant amount of time and expense for customers, companies, and the Commission and often results in alternatives that may not have been realized during the litigation process. Determining a company's revenue requirement is a calculation involving many complex and interrelated adjustments that affect expenses, depreciation, rate base, taxes and the company's cost of capital. Reaching an agreement between various parties on each component of a rate increase can be difficult and impractical in many cases.<sup>[418]</sup>

Yet, it is also the Commission's duty to ensure that the public interest is protected. Therefore, there must be sufficient information provided in a settlement in order for the

---

<sup>418</sup> *Pa. Pub. Util. Comm'n v. Peoples TWP LLC*, Docket No. R-2013-2355886 at 27 (Opinion and Order entered December 19, 2013)(citations omitted).

Commission to determine that a revenue requirement calculation and accompanying tariffs are in the public interest and properly balance the interests of ratepayers and the company.<sup>419</sup>

In reviewing the Settlement terms, the accompanying statements in support, the Settlement provides sufficient information to support the conclusion that the revenue requirement and other Settlement terms are in the public interest. The downward adjustment to the proposed revenue requirement, the revenue allocations, the reduction in the proposed customer charges, along with all the other terms and conditions of the Settlement together represent a fair and reasonable compromise. These reductions are particularly important to those residential ratepayers who offered testimony regarding the hardship they would incur due to UGI Gas' proposed increases in rates. Similarly, the "Universal Service and Other Low Income Issues" portion of the Settlement offers a reasonable resolution to address residential and low-income customer issues raised by the parties during this proceeding as well as the concerns raised by those who testified at the Public Input Hearings.

Also of note, the Settlement finds support from a broad range of parties with diverse interests. Each party represents a variety of interests. UGI Gas advocates on behalf of its corporate interests. The OCA is tasked with advocacy on behalf of Pennsylvania consumers in matters before the Commission.<sup>420</sup> The OSBA represents the interests of the Commonwealth's small businesses.<sup>421</sup> The I&E is tasked with balancing these various interests and concerns on behalf of the general public interest. Each of these public advocates maintain that the interests of their respective constituencies have been adequately protected and they further represent that the terms of the Partial Settlement are in the public interest. Other interests were also represented, and they too support the Settlement. These interests include public interest groups representing low-income customers (CAUSE-PA and CEO), as well as energy suppliers (NGS/RESA and Direct Energy). These parties, in a collaborative effort, have reached

---

<sup>419</sup> See *Pa. Pub. Util. Comm'n v. Pennsylvania Power Co.*, 55 Pa. PUC 552, 579 (1982); *Pa. Pub.Util. Comm'n v. National Fuel Gas Dist. Corp.*, 73 Pa. PUC 552, 603-605 (1990).

<sup>420</sup> Section 904-A of the Administrative Code of 1929, Act of April 9, 1929, P.L. 177, *as amended*, 71 P.S. § 309-1.

<sup>421</sup> Section 399.45 of the Small Business Advocate Act, Act of December 21, 1988, P.L. 1871, 73 P.S. § 399.45.

agreement on a broad array of issues, demonstrating that the Settlement is in the public interest and should be approved.

Resolution of this proceeding by negotiated settlement removes the uncertainties of litigation. In addition, all parties will benefit by the reduction in rate case expense and the conservation of resources made possible by adoption of the Settlement in lieu of litigation. The acceptance of the Settlement will negate the need for participation at in-person hearings or the filing of main and reply briefs on the issues contained in the Settlement, exceptions and reply exceptions, and potential appeals. These savings in rate case expense serve the interests of UGI Gas and its ratepayers, as well as the parties themselves.

As to the non-settling parties, Mr. Dolon, Ms. Hoffer & Ms. Margel, Mr. Knowlton, Mr. Visco, Ms. Neely, Mr. Galdieri, and Ms. Atkinson, were each provided a copy of the Joint Petition for Approval of Settlement of All Issues and offered an opportunity to comment or object to its terms. They did not do so. Inasmuch as their due process rights have been fully protected, their formal Complaints can be dismissed for lack of prosecution.<sup>422</sup>

For all of the foregoing reasons, I find the terms embodied in the Joint Petition for Approval of Settlement of All Issues are both reasonable and its approval is in the public interest. Accordingly, I recommend the Commission approve the Settlement without modification.

## IX. CONCLUSIONS OF LAW

1. The Commission has jurisdiction over the subject matter and parties in this case. 66 Pa.C.S. § 1308(d).

2. The burden of proof in a ratemaking proceeding is on the public utility. See 66 Pa.C.S. § 315(a); *Lower Frederick Twp. v. Pa. Pub. Util. Comm'n.*, 48 Pa. Commw. 222,

---

<sup>422</sup> See, *Schneider v. Pennsylvania. Pub. Util. Comm'n.*, 83 Pa.Cmwlt. 306, 479 A.2d 10 (1984) (Commission is required to provide due process to the parties; when parties are afforded notice and an opportunity to be heard, Commission requirement to provide due process is satisfied).

226-27, 409 A.2d 505, 507 (1980) (citations omitted). *See also, Brockway Glass v. Pa. Pub. Util. Comm'n*, 63 Pa. Commw. 238, 437 A.2d 1067 (1981).

3. To determine whether a settlement should be approved, the Commission must decide whether the settlement promotes the public interest. *Pa. Pub. Util. Comm'n v. CS Water & Sewer Assoc.*, 74 Pa. PUC 767 (1991); *Pa. Pub. Util. Comm'n v. Philadelphia Electric Co.*, 60 Pa. PUC 1 (1985).

4. The Joint Petition for Approval of Settlement of All Issues at Docket No. R-2018-3006814, submitted by UGI Utilities, Inc., the Bureau of Investigation and Enforcement, the Office of Consumer Advocate, the Office of Small Business Advocate, the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania, the Commission on Economic Opportunity, the Natural Gas Supplier Parties and the Retail Energy Supply Association, Direct Energy, and UGI Energy Services, Inc., promotes the public interest and therefore should be approved as submitted, without modification.

5. The Commission is required to provide due process to the parties; when parties are afforded notice and an opportunity to be heard, the Commission requirement to provide due process is satisfied. *Schneider v. Pa. Public Utility Comm'n*, 83 Pa.Cmwlth. 306, 479 A.2d 10 (1984).

## X. ORDER

THEREFORE,

IT IS RECOMMENDED:

1. That the Joint Petition for Approval of Settlement of All Issues (Settlement), including attachments, be admitted into the record of this proceeding.
2. That the Settlement be approved without modification.

3. That the proposals set forth in UGI Gas' January 28, 2019 distribution base rate increase filing at Docket No. R-2018-3006814, be approved subject to the terms and conditions of the Settlement.

4. That the *pro forma* tariff attached to the Settlement as Appendix A be approved.

5. That UGI Gas be authorized to file the tariff approved in Ordering Paragraph 4 to be effective on one-day's notice on or before October 29, 2019 for service rendered thereafter.

6. That the proof of revenues attached to the Settlement as Appendix B be approved.

7. That UGI Gas be authorized to file the proof of revenues referred to in Ordering Paragraph 6 with its tariff filing.

8. That UGI Gas allocate the authorized increase in operating revenue to each customer class and rate schedule within each in the manner prescribed in the Final Commission Order.

9. That UGI Gas be authorized to implement rates designed to produce an annual distribution rate revenue increase of \$30.0 million, to become effective on or before October 29, 2019 for service rendered thereafter.

10. That UGI Gas submit an update to Revised Exhibit A, Schedule C-2 to I&E, OCA, and OSBA no later than January 2, 2020, which update should include actual capital expenditures, plant additions, and retirements by month from October 1, 2018 through September 30, 2019, and an additional update to Schedule C-2 for actual expenditures by month from October 1, 2019 through September 30, 2020 shall be filed no later than January 2, 2021.



11. That, as of the effective date of the Commission's Final Order in this case, UGI Gas be eligible to include plant additions in the Distribution System Improvement Charge (DSIC) once the total net plant balances reach the levels projected to be in service in Revised UGI Gas Exhibit A as of September 30, 2020 (\$2,875,056,000.00), consistent with Settlement Paragraph 19.

12. That, for purposes of calculating its DSIC, UGI Gas shall use the equity return rate for gas utilities contained in the Commission's most recent Quarterly Report on the Earnings of Jurisdictional Utilities and shall update the equity return rate each quarter consistent with any changes to the equity return rate for gas utilities contained in the most recent Quarterly Earnings Report per Settlement Paragraph 20.

13. That the overall revenue requirement established in this proceeding assumes that UGI Gas' proposed Energy Efficiency and Conservation (EE&C) Plan test year modifications, including the expansion of the program into the UGI Central rate district, be approved as part of this proceeding subject to the modifications in Settlement Paragraphs 32 through 36. The overall revenue requirement includes annual EE&C expenditures.

14. That the use per customer and number of customer billing determinants utilized in the proof of revenue (UGI Gas Exhibit E) are those set forth in UGI Gas' initial filing, except that the sales for Rate R/RT shall be increased by 1,128,518 Mcf (2 Mcf per year per Rate R/RT heating customer).

15. That the revenue allocations in Settlement Paragraph 23 be approved.

16. That UGI Gas' proposal to move all rate classes to uniform distribution rates on the effective date of new rates established in this proceeding be accepted, provided, however, that for Rate N/NT and Rate DS, uniform distribution rates will be achieved in two steps consistent with Settlement Paragraph 24.

17. That Purchased Gas Cost (PGC) rate consolidation occur with the effective date of the new PGC year, December 1, 2019.
18. That the customer charges in Settlement Paragraph 25 be approved.
19. That UGI Gas' proposed Extension and Expansion Fund and Interruptible Sharing Mechanism be withdrawn.
20. That the Growth Extension Tariff (GET Gas) pilot program continue for an additional five years subject to annual reporting requirements, and that the customer surcharges identified in Settlement Paragraph 27 be approved. Effective with the effective date of new rates in this proceeding, the Company may continue to use the GET Gas program to expand into additional underserved and unserved areas of its certificated service territory except in Gas Beyond the Mains territories already determined uneconomic by the Commission. The Company will include in each above-referenced annual report an economic evaluation including cost, saturation and revenue projections for each GET Gas project.
21. That the Company's proposed Universal Service Program (USP) Rider be accepted, provided that the 9.2 percent Customer Assistance Program (CAP) Credit bad debt offset will be applied where CAP enrollment exceeds 19,672 CAP customers.
22. That UGI Gas' proposal to flow-back January through June 2018 Tax Cuts And Jobs Act tax savings to customers, including applicable interest, be accepted.
23. That the question of how to address an error in the recovery of PGC revenues described in the testimony of UGI Gas witness Megan Mattern be addressed in the 2019 PGC proceeding.
24. That UGI Gas' proposal to eliminate ACH and credit card fees be accepted.

25. That UGI Gas' EE&C Plan be approved as revised by the Settlement, consistent with Settlement Paragraph 32, including the Company's proposal to extend the current EE&C programs to the Central rate district. The Company's proposed modifications to the EE&C plan and associated budgets be accepted for the five year period covering fiscal years 2020 thru 2024.

26. That the proposal to allocate EE&C evaluation costs amongst all rate classes for ratemaking recovery as they are incurred be approved.

27. That the proposal to restrict EE&C program budgets so that program funds cannot be moved between residential and nonresidential rate classes be approved. Specifically, budget flexibility within a rate class' portfolio will be limited to twenty-five (25) percent of a program's five-year total budget, and the Company will petition the Commission for approval of changes of twenty-five (25) percent or more of a five-year total program budget within a rate class.

28. That UGI Gas discontinue recovery of \$100,000 of LIURP funding through its EE&C Rider.

29. That the EE&C Residential Retrofit Program be modified as described in Settlement Paragraph 36. The Residential Retrofit Program assessment fee waiver, including all direct install measures implemented under a fee-waived assessment, will be capped at \$250,000 annually. The \$250,000 is not incremental of the Residential Retrofit Program budget.

30. That the commitment made by UGI Gas to maintain its existing business relationship with Community Based Organizations (CBOs), subject to each individual CBO's continued performance in conformance with the Company's Universal Service and Energy Conservation Plan (USECP) rules and its contract with the Company, be adopted.

31. That UGI Gas maintain the current funding allocation proposed in its pending USECP at Docket No. M-2017-2598190 across the geographic footprint of its former

three rate districts unless and until a new allocation is proposed and approved as part of its next triennial USECP filing. Modifications to funding shall be consistent with Settlement Paragraph 38.

32. That the Commission approve the proposal to roll over unspent program dollars for UGI Gas' Consolidated LIURP and Hardship Fund programs at the end of a program year. The unspent program dollars will be added to the budget for the following year.

33. That the increase to UGI Gas' aggregate LIURP expenditures by \$400,000 for its pending triennial USECP, with such funding to commence no earlier than January 1, 2020, be approved.

34. That the Commission approve the proposal to increase UGI Gas' aggregate Gas LIURP budget by \$100,000 per year starting no earlier than January 1, 2020, in order to provide additional funding for the UGI Gas Emergency Furnace Repair Program. The Program will be open to all eligible customers throughout the service territory.

35. That UGI Gas provide third party notification forms to its CBOs for inclusion in their assistance applications. To the extent that CBOs charge UGI Gas for use of these third party notification forms, UGI Gas be permitted to recover these costs through the USP Rider.

36. That UGI Gas revise its letter, as well as its call scripts, training materials, and other written policies and procedures, to clarify that enrollment in CAP is not a requirement to obtain a security deposit waiver, and to clarify the steps that the customer must take to obtain a security deposit waiver. UGI Gas will review its revised materials at its annual Universal Service Program Collaborative Meeting, and will solicit feedback and recommendations for further revisions from participants at the meeting.

37. That UGI Gas review currently held security deposits on a monthly basis, and issue a bill credit or refund for any deposit previously collected from a confirmed low

income customer. UGI Gas will continue this monthly review process until programming for a permanent fix to its billing system is complete and operationalized.

38. That UGI Gas review CAP rates for those enrolled in the average bill or percentage of income CAP rate plans on a quarterly basis in order to determine whether a more affordable rate plan is available. To the extent the CAP customer qualifies, the CAP customer's applicable CAP rate will be adjusted to the lowest available rate at the time of review. UGI Gas will be permitted to recover any just and reasonably incurred Information Technology costs associated with formalizing this practice in its customer billing system through its Rider USP. Such costs to be recovered through the USP will be capped at \$125,000. UGI Gas will be permitted to recover all Information Technology costs associated with formalizing this practice in its customer billing system through its Rider USP. UGI Gas will begin this review process within 10 months of the effective date of rates. Within 90 days after the first quarterly CAP rate adjustment is made, UGI Gas will report to the parties on the number of rate adjustments made through this review process.

39. That UGI Gas eliminate its restriction on Budget Billing enrollment that bars the enrollment of customers in arrears in Budget Billing. Any arrearage balance and payments towards the arrearage balance will be accounted for separately from the customer's Budget Bill amount.

40. That UGI Gas implement the settlement provisions relating to changes to its universal service program within ninety (90) days of the effective date of the rate increase, except where otherwise indicated. UGI Gas will file a status report with the Commission certifying that the agreed-upon policy changes have been implemented within one hundred and eighty (180) days of the effective date of the rate increase.

41. That the Company's proposed choice and non-choice transportation program rules be approved and become effective November 1, 2019, in the case of the choice transportation program and November 1, 2020, in the case of the non-choice transportation program, except where modified by the Settlement.

42. That UGI Gas' proposal to adopt a non-choice daily balancing tolerance of four and one-half percent (4.5%) effective November 1, 2020 be approved.

43. That, for Rate NNS, UGI Gas adjust the storage trip cost in the calculation of Rate NNS charges to \$0.3483 per Mcf. The resulting Rate NNS charges will be as stated in Settlement Paragraph 53.

44. That, for Rate MBS, UGI Gas include storage demand charges on a 100 percent load factor basis in the development of the rate, and update the average monthly imbalance utilized in the development of Rate MBS charges annually with the actual average monthly imbalance for the 12 month period ending September to determine the new Rate MBS charges effective December 1 of each year. The Company shall include the new Rate MBS charges as part of its annual PGC compliance filing. The resulting initial Rate MBS charges be as stated in Settlement Paragraph 54.

45. That UGI Gas delay implementation of the interconnections with the Sunbury Pipeline and Mt. Bethel Pipeline as Acceptable Substitute Delivery Points for non-choice transportation customer deliveries until November 1, 2023, provided that those points may be used for purchased gas cost obligations and choice related peaking and delivered services.

46. That UGI Gas provide written notice on its Gas Management Website of any proposed interconnection points within thirty days of the execution of an Interconnection Agreement with the Company where the interconnecting entity elects to have the Interconnection Point included as an Acceptable Substitute Delivery Point consistent with Settlement Paragraph 55.

47. That the weighted average cost of demand for customers served under Rates DS and LFD be as provided in Settlement Paragraph 56. The Company's capacity assignment proposals for Rate XD be accepted as filed.

48. That UGI Gas maintain a supply nomination deadline for Delivered Supply under the choice program of 8:45 am. The Company shall provide the Daily Delivery Requirement target no later than 8:15 am. The deadline for Bundled Supply under the choice program shall be at 2:00 pm.

49. That UGI Gas institute a common DUNS number for the purpose of making customer and delivery nominations under the choice transportation program effective November 1, 2019. Effective November 1, 2020, the Company will institute a common DUNS number for the purpose of making customer and delivery nominations under the non-choice transportation program.

50. That UGI Gas' proposal to expand daily metering be accepted, as discussed in the Direct Testimony of Shaun Hart, UGI Statement No. 9. The Company will exercise best efforts to transfer the remaining non-choice transportation accounts to calendar month billing and balancing pools by no later than November 1, 2020.

51. That UGI Gas merge the Southeast and Southwest regions. The updated delivery split requirements will be as stated in Settlement Paragraph 60.

52. That UGI Gas modify its Eligible Customer List to provide associated customer delivery region designations. UGI Gas will continue to provide certain information concerning choice customers in accordance with the Commission's customer information disclosure regulations at 52 Pa. Code §62.78. For non-choice customers, the Company will post a listing of account numbers and their respective delivery region designations on its password protected website accessible only to authorized Company personnel and licensed NGSs qualified to do business on the UGI Gas system.

53. That UGI Gas release to suppliers a full list of producers directly connected to the UGI Gas system on a password protected website accessible only by authorized Company personnel and licensed NGSs.

54. That UGI Gas analyze the capability to provide a virtual storage proposal to NGSs who provide “choice” natural gas supply service on the UGI Gas distribution system that will allow suppliers to manage injections and withdrawals of supply through nominations made to the Company consistent with the provisions in Settlement Paragraph 63.

55. That annual differences between \$4.188 million and actual expenditures for environmental costs be deferred as a regulatory asset where expenditures are greater than \$4.188 million per year or as a regulatory liability where expenditures are less than \$4.188 million on an annual basis and accumulated for book and ratemaking purposes until the Company’s next base rate case, consistent with Settlement Paragraph 64.

56. That the Commission approve the combined annual environmental remediation expense, amortized for book and ratemaking purposes, of \$1.621 million, which reflects the use of a five-year amortization period applied to the combined regulatory asset balances of \$8.103 million set forth on UGI Gas Exhibit A, Schedule D-8, lines 9 and 13.

57. That UGI Gas’ Accumulated Deferred Income Tax and pro-rationing methodology as required by Treasury Regulation 1.167(l)-1(h)(6)(ii) be accepted. Further, the Company’s method to amortize Excess Accumulated Deferred Federal Income Taxes (EDFIT) according to the Average Rate Assumption Method be accepted. Absent a change in federal or state law, regulation, judicial precedent or policy, the remaining unamortized EDFIT balance will continue as a reduction to rate base in all future proceedings until the full amount is returned to ratepayers.

58. That the Commission accept that for purposes of determining the revenue requirement in this case, all capitalized repairs deductions claimed on a tax return have been normalized for ratemaking purposes and the appropriate related amount of tax effect of those deductions has been reflected as Accumulated Deferred Income Taxes as a reduction to UGI Gas’ rate base.



59. That the Company's proposed accounting treatment for UNITE and Hypercare costs be approved.

60. That the Commission approve UGI Gas' proposal to record the costs associated with its mechanical tee remediation program as capital investment for book accounting purposes, effective October 1, 2018.

61. That the Commission adopt the Company's as-filed depreciation rates, which are accepted for the Company's accounting purposes.

62. That UGI Gas continue conducting separate risk analyses for each of the three districts and continue to maintain a combined system-wide calculated risk for all assets across company territories in one master DIMP record which will be utilized for LTIIP prioritization purposes.

63. That UGI Gas continue taking affirmative steps to reduce restoration costs, through efforts including, but not limited to, coordinating pipe replacement projects with other street projects, and replacing pipe using trenchless construction techniques where technically and economically feasible.

64. That UGI Gas hold a one-time stakeholder meeting with the Commission's Safety Division, and any other interested parties to this proceeding, within sixty (60) days following the final order in this proceeding, to elicit input into potential strategies designed to reduce construction and restoration costs associated with pipeline replacement projects.

65. That UGI Gas maintain a competitive alternative analysis for each interruptible customer with alternate fuel capability every five (5) years consistent with the provisions of Settlement Paragraph 73. The first Interruptible Customer Competitive Analysis will be provided in the next base rate case.

66. That the investigation at Docket No. R-2018-3006814 be terminated upon the filing of the approved tariffs.

67. That the formal Complaint filed by the Office of Consumer Advocate at Docket No. C-2019-3007753, be closed as satisfied.

68. That the formal Complaint filed by the Office of Small Business Advocate at Docket No. C-2019-3007756, be closed as satisfied.

69. That the formal Complaint filed by Keith P. Dolon at Docket No. C-2019-3007953, be dismissed.

70. That the formal Complaint filed by Gail L. Hoffer and Bernadette Margel at Docket No. C-2019-3008002, be dismissed.

71. That the formal Complaint filed by James J. Knowlton at Docket No. C 2019-3008606, be dismissed.

72. That the formal Complaint filed by Christopher Visco at Docket No. C 2019-3008737, be dismissed.

73. That the formal Complaint filed by Ruth E. Neely at Docket No. C-2019-3008833, be dismissed.

74. That the formal Complaint filed by Sam Galdieri at Docket No. C-2019-3009325, be dismissed.

