

BOOK III

6/2/16  
Hegre

**UGI UTILITIES, INC. – GAS DIVISION**

**BEFORE**

**THE PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Information Submitted Pursuant to**

**Section 53.51 et seq of the Commission's Regulations**

**UGI GAS STATEMENT NO. 1 – PAUL J. SZYKMAN**

**UGI GAS STATEMENT NO. 2 – ANN P. KELLY**

**UGI GAS STATEMENT NO. 3 – PAUL R. MOUL**

**UGI GAS STATEMENT NO. 4 – PAUL R. HERBERT**

**UGI GAS STATEMENT NO. 5 – JOHN F. WIEDMAYER**

**UGI GAS STATEMENT NO. 6 – DAVID E. LAHOFF**

**ORIGINAL TARIFF**

**UGI UTILITIES, INC. – GAS DIVISION – PA P.U.C. NO. 6**

**DOCKET NO. R-2015-2518438**

**Issued: January 19, 2016**

**Effective: March 19, 2016**

**UGI GAS STATEMENT NO. 1 – PAUL J. SZYKMAN**

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Docket No. R-2015-2518438**

**UGI Utilities, Inc. – Gas Division**

**Statement No. 1**

**Direct Testimony of  
Paul J. Szykman**

**Topics Addressed:**

- Rate Filing Overview**
- Need for Rate Relief**
- UGI-1 Initiative**
- UNITE Systems Improvement Initiative**
- Interruptible Revenues**
- Management Performance**

**Dated: January 19, 2016**

1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. Please state your name and business address.**

3 A. My name is Paul J. Szykman. My business address is 2525 North 12<sup>th</sup> Street,  
4 Suite 360, Reading, PA 19612-2677.

5  
6 **Q. By whom and in what capacity are you employed?**

7 A. I am employed by UGI Utilities, Inc. ("UGI") as Vice President – Rates &  
8 Government Relations and Vice President & General Manager – Electric Utilities.

9  
10 **Q. Please briefly describe your responsibilities in that capacity.**

11 A. As Vice President – Rates and Government Relations, I am responsible for all  
12 rate and governmental affairs activities for UGI Utilities, Inc. – Gas Division ("UGI  
13 Gas" or the "Company"), UGI Penn Natural Gas, Inc. ("PNG"), UGI Central Penn  
14 Gas, Inc. ("CPG") and UGI Utilities, Inc. – Electric Division ("UGI Electric"). For  
15 the rates component, I oversee the areas of sales and revenue forecasting, tariff  
16 administration and compliance, Choice administration and compliance, rate  
17 administration, 1307(f) gas cost filings, electric POLR filings, 1307(e) filings and  
18 UGI's supportive gas management information technology systems and  
19 functionality.

20 As far as government relations are concerned, I am responsible for  
21 managing the development and implementation of the Company's strategies in  
22 federal and state legislative and regulatory arenas.

1           Finally, I have recently taken on management of the operations of UGI  
2           Electric. In all of these capacities, I report directly to the President and Chief  
3           Executive Officer of UGI.

4  
5   **Q.    What is your educational and professional background?**

6   A.    Please see my resume, UGI Gas Exhibit PJS-1, which is attached to my  
7           testimony.

8  
9   **Q.    Have you testified previously before this Commission?**

10  A.    Yes. UGI Gas Exhibit PJS-1 contains a list of those proceedings.

11  
12  **II.    PURPOSE OF TESTIMONY**

13  **Q.    Please describe the purpose of your testimony in this proceeding.**

14  A.    My testimony addresses several issues. First, I present an overview of the rate  
15           filing, including a brief explanation of the reasons for rate relief and an outline of  
16           the testimony of each witness in this proceeding. Second, I will describe UGI-1,  
17           which is an initiative designed to align UGI's people, processes and tools across  
18           the utility business units and identify the expected benefits from that initiative. As  
19           part of my UGI-1 discussion, I briefly discuss the UGI's Next Information  
20           Technology Enterprise ("UNITE") Initiative, which is UGI's ongoing effort to  
21           develop and implement a next generation technology solution, including a state-  
22           of-the-art customer information system ("CIS") and other work management and

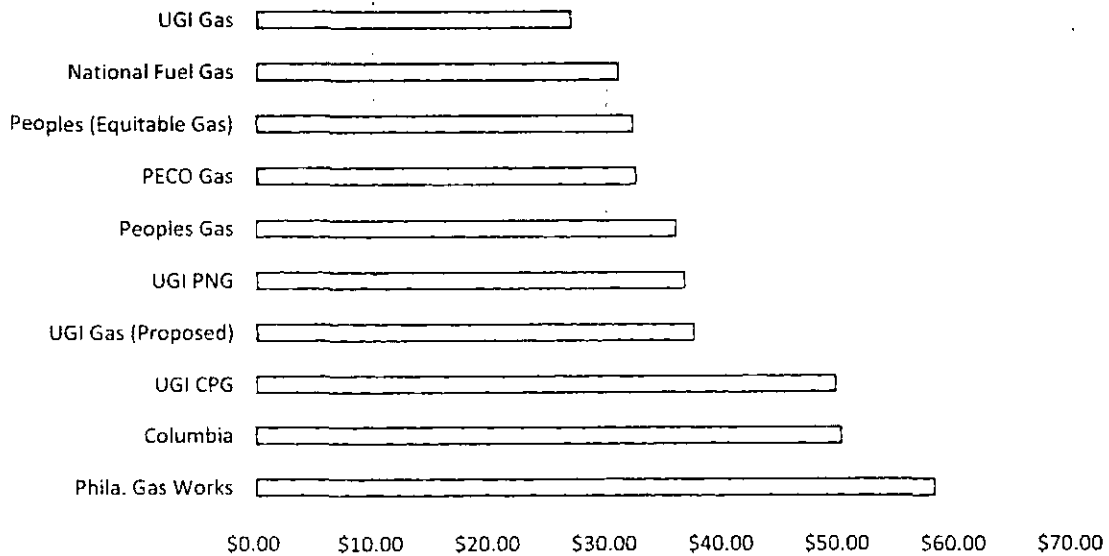
1 regulatory compliance programs, and summarize the benefits that UNITE will  
2 bring to UGI's Customers. Third, I discuss the Company's interruptible service  
3 program and how continuing value of service pricing for those customers is  
4 reasonable and appropriate. Lastly, I will summarize UGI's focus on  
5 management and its success in improving management performance. As further  
6 explained below, UGI Gas's management continues to improve service to  
7 customers through various initiatives, including, but not limited to: the UGI-1  
8 initiative; the UNITE system improvement initiative; an accelerated infrastructure  
9 replacement plan; an innovative expansion and extension program; sustained  
10 customer growth; customer service that has generated nationally recognized  
11 customer satisfaction; implementation of recently expanded universal services  
12 offerings; development of an energy efficiency and conservation plan; and  
13 dedication to continuous safety improvement initiatives designed to keep  
14 employees, customers and property safe and reduce workplace injuries and  
15 motor vehicle accidents.

16 At the same time, the Company has been able to offer excellent service to  
17 customers at just and reasonable rates. A comparison of residential rates,  
18 shown in Table 1 below, illustrates that UGI Gas currently has the lowest  
19 distribution rates in the Commonwealth.  
20

1

Table 1

**Distribution Rate Comparison  
Major PA NGDCs  
Average Monthly Residential Heating Bill @ 57.3 Ccf/Month**



2

3

Even if the proposed increase is approved in full, the average monthly residential heating customer bill will be 3.2% lower than the average bill following UGI Gas's last rate case in 1995.

4

5

6

7

**Q. Are you sponsoring any exhibits in this proceeding?**

8

**A.** Yes. In addition to UGI Gas Exhibit PJS-1 mentioned above, I am sponsoring certain responses to the Commission's filing requirements. Each filing requirement response identifies the witness sponsoring it. Specifically, I am sponsoring those schedules that were prepared by me or under my direction as appropriately identified in this filing.

9

10

11

12

13

1 **III. OVERVIEW OF THE COMPANY'S FILING**

2 **Q. Please discuss the rate relief that UGI Gas is requesting.**

3 A. UGI Gas is requesting an increase in its annual base rate operating revenues of  
4 \$58.6 million, or 17.5 percent on a total revenue basis, with a proposed effective  
5 date of March 19, 2016. The base rate increase requested in this filing is based  
6 on a fully projected future test year ending September 30, 2017 ("FPFTY"). The  
7 Company also proposes substantial changes to its existing tariff to both  
8 harmonize the UGI Gas tariff with those previously approved by the Commission  
9 for CPG and PNG and to implement best practices and procedures. The  
10 Company also is proposing a new five-year energy conservation program, the  
11 Energy Efficiency and Conservation ("EE&C") Plan, designed to promote efficient  
12 use of natural gas. Finally, the Company is proposing a Technology and  
13 Economic Development ("TED") Rider to, among other things, provide rate  
14 flexibility needed to encourage developing technologies, and to address  
15 competitive conditions and customer preferences in seeking to expand the  
16 availability and use of the Commonwealth's abundant natural gas supplies.

17  
18 **Q. Why is UGI Gas seeking a rate increase at this time?**

19 A. The Company's current rates do not provide it with a reasonable opportunity to  
20 earn its cost of capital. Since its last rate case in 1995, UGI Gas has made over  
21 \$1.0 billion in system investments, increasing the Company's rate base by over  
22 120 percent. These investments were necessary to serve new residential and



1 commercial customers; connect customers converting to natural gas; accelerate  
2 the replacement of aging gas plant infrastructure; upgrade and improve system  
3 segments and modernize facilities; and install and upgrade supporting  
4 information technology, all as part of growing and maintaining a safe and reliable  
5 distribution system and providing quality customer service. Over the same  
6 period, UGI Gas has adopted modest annual wage and salary adjustments and  
7 will continue to do so, where reasonable, and has experienced other general  
8 price increases for the products and services it must procure. Although UGI Gas  
9 has implemented significant cost containment measures, implemented efficiency  
10 enhancements including major strides toward integrating its operations with  
11 those of CPG and PNG, and seen substantial customer growth over time, the  
12 growth in operating and capital costs, along with experienced and anticipated  
13 declines in per customer usage, have caused UGI Gas to be unable to earn a fair  
14 rate of return on its investment, at present rate levels.

15 Specifically, as reflected in UGI Gas Exhibit A (Fully Projected), Schedule  
16 A-1, the Company's operations are projected to produce an overall return on rate  
17 base of 4.52%, which equates to a return on common equity of only 4.30% for  
18 the twelve months ending September 30, 2017. As explained by UGI Gas  
19 witness Paul R. Moul (UGI Gas Statement No. 3), those returns are not adequate  
20 based on applicable financial data and the risks confronted by UGI Gas. Unless  
21 UGI Gas receives the requested substantial rate relief, those returns will continue  
22 to decline and potentially jeopardize the Company's ability to attract the capital

1 needed to make system investments that will enhance the reach and capacity of  
2 its distribution system and to replace older, obsolete facilities, each of which is  
3 prudent to ensure continued system reliability, safety, and customer service  
4 performance.

5  
6 **Q. Please identify the other witnesses providing direct testimony on behalf of  
7 UGI Gas in this proceeding and the subject matter of their testimony.**

8 **A** In addition to my testimony, the following witnesses are providing testimony in  
9 support of the Company's rate request:

10  
11 **Ann P. Kelly** (UGI Gas Statement No. 2) serves as Controller of UGI. Ms. Kelly  
12 addresses the Company's accounting and budgeting processes. She also  
13 presents the UGI Gas overall revenue requirement for the FPFTY, including test  
14 year revenue, rate base, and operating expense claims, and certain pro forma  
15 adjustments as set forth in UGI Gas Exhibit A (Fully Projected). Ms. Kelly also  
16 presents the Company's historic test year ("HTY"), ended September 30, 2015,  
17 and future test year ("FTY"), ending September 30, 2016, with appropriate  
18 ratemaking adjustments.

19  
20 **Paul R. Moul** (UGI Gas Statement No. 3) is Managing Consultant of P. Moul &  
21 Associates, Inc. Mr. Moul presents expert testimony concerning the overall rate  
22 of return that UGI Gas should be afforded in order to have a reasonable

1 opportunity to earn a fair return on its rate base investment. Mr. Moul also  
2 supports the Company's claimed capital structure, its embedded cost of debt, as  
3 well as its requested return on common equity. Schedules and work papers  
4 supporting Mr. Moul's findings are set forth in UGI Gas Exhibit B.

5  
6 **Paul R. Herbert** (UGI Gas Statement No. 4) is President of Gannett Fleming  
7 Valuation & Rate Consultants, LLC. Mr. Herbert prepared and sponsors the  
8 Company's fully allocated cost of service studies used in this case, which are  
9 found in UGI Gas Exhibit D.

10  
11 **John F. Wiedmayer** (UGI Gas Statement No. 5) is Project Manager at Gannett  
12 Fleming Valuation & Rate Consultants, LLC. Mr. Wiedmayer developed and  
13 supports the Company's claim for annual depreciation expense and the  
14 accumulated depreciation reserve. His studies are presented in UGI Gas Exhibit  
15 C (Fully Projected), UGI Gas Exhibit C (Future) and UGI Gas Exhibit C (Historic).

16  
17 **David E. Lahoff** (UGI Gas Statement No. 6) is Manager – Tariff & Supplier  
18 Administration for UGI. Mr. Lahoff is responsible for all areas of the Company's  
19 rate design and revenue allocation except where I discuss interruptible service  
20 pricing in my testimony. Mr. Lahoff also addresses and sponsors related exhibits  
21 that show the proof of revenues and proposed rate design, as presented in UGI  
22 Gas Exhibit E - Proof of Revenue. Mr. Lahoff's testimony also presents the

1 detailed supporting sales and revenue adjustments for each tariff customer class,  
2 including related models and assumptions.

3 Mr. Lahoff is also sponsoring UGI Gas Exhibit F, which is Original Tariff –  
4 Gas Pa. P.U.C. No. 6 (“Tariff No. 6”), which replaces current Tariff – Gas Pa.  
5 P.U.C. No. 5. Mr. Lahoff provides a summary of the proposed changes to the  
6 tariff rules, regulations, and rate schedules included in UGI Gas’s Tariff No. 6,  
7 and changes to the Choice Supplier Tariff, which is incorporated into Tariff No. 6  
8 as Tariff No. 6-S. Mr. Lahoff also provides an explanation of the EE&C Rider,  
9 Merchant Function Rider, Universal Service Program Rider, and Growth  
10 Extension Tariff (“GET Gas”) Rider.

11  
12 **Robert R. Stoyko** (UGI Gas Statement No. 7) is Vice President, Marketing and  
13 Customer Relations for UGI. Among the issues addressed in his testimony, Mr.  
14 Stoyko discusses the variety of risks affecting the economics of serving large firm  
15 and interruptible customers, including such variables as physical bypass and the  
16 spread between delivered natural gas prices and competing alternate fuels. Mr.  
17 Stoyko also explains and provides support for the Company’s proposed TED  
18 Rider, large customer usage projections, proposed changes to the Company’s  
19 Universal Service Program cost recovery mechanism, and implementation plans  
20 for the Company’s proposed EE&C Plan.

21  
22 **Thomas P. Lord** (UGI Gas Statement No. 8) is Vice President & Chief

1 Information Officer for UGI. Mr. Lord provides a detailed explanation of the  
2 benefits of the UNITE initiative and how Phase I of UNITE, involving the  
3 implementation of a new CIS and other features, will assist the Company in  
4 improving its ability to interact with customers and improve the service provided  
5 by the Company. Mr. Lord's testimony also presents the project schedule and  
6 the important milestones that will be met to place the CIS into service during the  
7 FPFTY.

8  
9 **Hans Bell** (UGI Gas Statement No. 9) is Vice-President Engineering &  
10 Operations Support for UGI. In his testimony, Mr. Bell discusses the Company's  
11 natural gas distribution system, its Commission-approved Long Term  
12 Infrastructure Improvement Plan ("LTIIP"), and the Company's performance  
13 against its infrastructure replacement and improvement objectives. Mr. Bell also  
14 discusses the impact of the LTIIP and other initiatives on system performance,  
15 safety, and reliability. Additionally, Mr. Bell discusses the changes to the  
16 Company workplace safety program and the favorable impact those changes  
17 have had on various employee safety performance metrics over the course of the  
18 first year those changes were in effect, fiscal year 2015. Finally, Mr. Bell  
19 addresses the Company's enhanced efforts and future plans to investigate and,  
20 where necessary, remediate sites in Pennsylvania where the Company or  
21 corporate predecessors once owned and operated manufactured gas plants in  
22 connection with gas utility operations.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22

**Nicole McKinney** (UGI Gas Statement No. 10) is UGI's Principal Tax Analyst. Ms. McKinney addresses the Company's claim for federal and state income taxes, taxes other than income taxes, the calculation of the accumulated deferred income taxes ("ADIT") offset to rate base, the ratemaking treatment of the impact of the Company's repairs tax method election on federal and state income taxes, and issues pertaining to UGI Gas's participation in a consolidated group for federal income tax purposes.

**Theodore M. Love** (UGI Gas Statement No. 11) is Senior Analyst of Green Energy Economics Group, Inc. Mr. Love presents the Company's proposed EE&C Plan and discusses its costs and benefits. As part of this presentation, Mr. Love also provides the results of an analysis applying the total resource cost ("TRC") test. Mr. Love also discusses the implementation schedule for the EE&C Plan.

**IV. UGI-1 INITIATIVE**

**Q. Please describe the UGI-1 initiative.**

A. UGI-1 is a company-wide improvement initiative focusing on people, tools and processes. UGI Gas has a history of pursuing excellent performance for its customers, employees and shareholders. Moving forward, the Company plans to build upon its strong past as it looks for ways to become an even better service

1 provider in the future. Over the past few years, UGI Gas has experienced  
2 substantial growth opportunities as well as significant operational challenges. To  
3 act on these opportunities and to address these challenges, UGI Gas is working  
4 harder than ever to take advantage of synergies, equip employees for future  
5 success, and improve vertical and lateral communications throughout the  
6 organization. By implementing these initiatives, UGI Gas will position itself for  
7 continued growth and success and outstanding customer service.

8 UGI-1 includes a number of fundamental improvement efforts, including  
9 such programs as: UNITE technology improvement project; UGI's 'Making a  
10 Difference' safety improvement program; the migration of all employee computer  
11 workstations to a set of common workplace applications; the migration of all field  
12 employees to a single set of gas operations and construction processes and  
13 specifications; UGI building and grounds improvements and renovations; UGI's  
14 natural gas pipeline facility extension and betterment programs; an enhanced  
15 focus on physical and cyber security; and a range of enhanced and expanded  
16 employee development and training programs.

17 As a visible and public sign of these changes, the Company introduced a  
18 new logo and brand image. UGI no longer describes itself to the public as a set  
19 of entities named UGI Gas Division, UGI Penn Natural Gas, UGI Central Penn  
20 Gas, and UGI Electric Division; the company is now publically presented across  
21 all service territories as UGI Gas or UGI Electric.

1 **Q. How do the changes envisioned by UGI-1 benefit customers?**

2 A. The overall goal of UGI-1 is to place all of our operations on the same common  
3 set of information systems, tools, equipment, and uniform work management and  
4 performance platforms. This will allow the Company to become more efficient  
5 and effective in performing all aspects of its business, whether it is in the areas of  
6 handling calls from customers, performing billing and related activities, building a  
7 pipeline, operating and maintaining the gas distribution system, or handling  
8 emergencies. An effective and common system of performing and measuring  
9 performance among our geographically disparate service territories and  
10 segments thereof will also expedite identification of problems that can be  
11 corrected more readily or even before they happen, driving further efficiency  
12 gains and service improvements.

13 Fully integrating three separately regulated natural gas distribution  
14 systems (UGI Gas, CPG, and PNG) and one electric distribution system will  
15 enable the Company to ensure that costs incurred to provide service reflect a  
16 common way of doing our work. This will help eliminate differences in cost  
17 drivers among the three regulated natural gas distribution systems, to the extent  
18 feasible and where geographic or industry (natural gas versus electric) factors do  
19 not dictate the result.

20

21 **Q. Please provide some examples of the operational benefits that are being**  
22 **derived from the UGI-1 initiative.**



1 A. There have been several improvements in the operations area. For example,  
2 UGI has made a concerted effort over the past two years to establish and  
3 implement a common methodology for rating the severity of natural gas system  
4 leaks to place all three of UGI's gas distribution systems in line with the Gas  
5 Pipeline Technology Committee standard. Now that this common rating system  
6 has been established and implemented, UGI is better situated to allocate its  
7 pipeline replacement, leak survey and repair, financial, internal labor, and  
8 contractor resources to the segments of the UGI Gas, CPG, and PNG distribution  
9 systems that require the most attention based on uniform measures of risk. This  
10 common approach to regulatory compliance has achieved significant  
11 improvements to system safety performance over the past two years, including:  
12 (i) a 20 percent system-wide reduction (11 percent for UGI Gas) in overall Class  
13 A and Class B leak inventory over the past year; (ii) a 32 percent system-wide  
14 reduction in the more critical Class B leaks (29 percent for UGI Gas); and (iii) a  
15 17 percent system-wide reduction in hazardous Class C leaks (34 percent for  
16 UGI Gas). As discussed further in the direct testimony of Mr. Bell (UGI Gas  
17 Statement No. 9), UGI's common set of initiatives in workplace safety,  
18 Pennsylvania 1-Call, and its Distribution Integrity Management Program ("DIMP")  
19 have begun to bear fruit in terms of achieving improved safety based on  
20 measurable performance criteria.

21

1 **Q. Are there examples of additional improved customer service performance?**

2 A. Yes. In the area of natural gas line extensions, UGI is a demonstrated leader in  
3 adding new residential and commercial customers to its gas distribution system.  
4 Over the course of the past three years, UGI Gas has led Pennsylvania in adding  
5 new customers, averaging over 15,000 new residential heating and 2,000 new  
6 commercial customers per year. In fact, since the Company's last base rate  
7 case in 1995, UGI Gas has grown its customer base by 50%, or by over 120,000  
8 customers.<sup>1</sup> No other gas utility in the Commonwealth has experienced such  
9 *significant customer growth, and the Company's 50% customer base expansion*  
10 *is over 150% greater than any other gas utility growth rate during that same*  
11 *period. The management of customer growth of this magnitude in and of itself,*  
12 *while challenging, is an indicator of superior customer focus and performance in*  
13 *execution.*

14 More recently, UGI's Commission-approved GET Gas Pilot Program has  
15 been nationally recognized as an innovative tariff mechanism designed to  
16 expand natural gas service to unserved and underserved areas in and around  
17 the Company's gas distribution service territory. The GET Gas program, as well  
18 as the Company's considerable growth and new construction over the past  
19 several years, is discussed further in the Direct Testimony of Mr. Stoyko (UGI  
20 Gas Statement No. 7).

21 In this case, the Company's proposed TED Rider and EE&C Program, as

---

<sup>1</sup> Comparison based on customers as of 12/31/14 compared to 12/31/95.

1 discussed in more detail below, further demonstrate the Company's commitment  
2 to expand its customer base and to do so in an effective, efficient, economic and  
3 environmentally friendly manner.

4  
5 **Q. Has UGI been recognized as an environmental leader?**

6 A. Yes. As discussed in the testimony of Mr. Bell (UGI Gas Statement No. 9), UGI  
7 is nationally recognized as an environmental leader in the gas industry, as  
8 evidenced by UGI's recent selection as an "Environmental Champion" by Cogent  
9 Reports™, a division of Marketing Strategies International. The Environmental  
10 Champion status was conferred based on Environmental Dedication scores that  
11 reflect the extent consumers believe companies are supporting environmental  
12 causes, are committed to environmentally friendly energy sources, are  
13 encouraging green initiatives, and are offering tools to help customers save  
14 energy. In brief, we believe that these scores reflect UGI's advocacy in support  
15 of Combined Heat and Power ("CHP") applications, converting customers from  
16 home heating oil to natural gas, and through its management of legacy  
17 environmental sites.

18 In addition, as discussed in Mr. Bell's testimony (UGI Gas Statement No.  
19 9), UGI Gas has undertaken an expanded program to remediate the  
20 environmental conditions at a number of sites in Pennsylvania formerly used to  
21 manufacture gas for consumption by its customers. By joining with its affiliated  
22 gas companies, CPG and PNG, in this effort, UGI Gas is now taking more

1 aggressive steps to address the environmental concerns presented by these  
2 former manufactured gas plant sites.

3  
4 **Q. Why is the Company proposing an energy efficiency and conservation  
5 program?**

6 A. UGI Gas's proposal is consistent with its environmental effort and approach  
7 towards customer service. The EE&C Plan will provide customers with a  
8 financial incentive to install higher efficiency gas burning appliances and  
9 equipment. The resulting reduction in consumption will provide savings to  
10 customers who take advantage of the program, as well as environmental benefits  
11 and downward pressure on natural gas prices to the benefit of all customers.  
12 Moreover, UGI Gas believes key elements of the EE&C Plan that focus on the  
13 most efficient use of energy resources, including greater CHP and direct use  
14 natural gas applications, can be a key element of the Commonwealth's  
15 compliance with the U.S. Environmental Protection Agency's Clean Power Plan.  
16 A more detailed discussion of this program and its benefits is provided in the  
17 testimony of Mr. Love (UGI Gas Statement No. 11).

18  
19 **Q. Has the Company undertaken any recent initiatives to assist low income  
20 customers to afford their natural gas service?**

21 A. UGI Gas recently received approval from the Commission to implement several  
22 new components to its Universal Service Programs that should assist low income

1 customers, including: eliminating the maximum level of low income customers  
2 that can be served under the Company's Customer Assistance Program ("CAP"),  
3 formerly the Low Income Self Help Program ("LISHP"); and increasing the level  
4 of expenditures under its Low Income Usage Reduction Program ("LIURP") to  
5 \$1.1 million.

6 While the Company is not proposing to change any of the terms and  
7 conditions related to any of its recently approved Universal Service Programs, it  
8 is anticipating growth in CAP participation and is proposing to adopt a cost  
9 recovery mechanism identical to those it has already implemented at CPG and  
10 PNG.

11  
12 **Q. You mentioned earlier in your testimony the Company's UNITE initiative as**  
13 **part of UGI-1. Please discuss.**

14 A. As noted earlier, UNITE stands for UGI's Next Information Technology  
15 Enterprise. As discussed in the direct testimony of Mr. Lord (UGI Gas Statement  
16 No. 8), UNITE is a multi-phased, multi-year project designed to replace and  
17 update UGI's core, non-financial computer systems including the Customer  
18 Information System ("CIS"), Work Management System, Asset Management  
19 System and Mobile Data Management System. In its first phase, UGI's two  
20 aging CISs will be replaced with one state-of-the-art system. Having a common  
21 CIS for all four of its utility business (UGI Gas, UGI Electric, CPG, and PNG) will  
22 allow UGI to develop and apply a common set of processes so that it can

1 maximize the efficiency of rendering service to its customers at a reasonable  
2 cost. This initiative will allow 1,200 of our employees system wide to provide  
3 safer and more reliable service in the field and to address other concerns related  
4 to billing and affordability of service. Importantly, this new system will also  
5 support key Choice customer business processes, including seamless moves,  
6 instant connects and 3-day switching, as may be required. UNITE will address a  
7 number of objectives including: reducing operational risks related to the age of  
8 certain applications where there is no vendor support and the people who know  
9 the systems best are retiring; improving operational capabilities with new  
10 "scalable" technology platforms; standardizing and reducing the number of  
11 systems and duplicate processes across UGI; improving business information to  
12 make more informed business decisions; and gaining efficiency related to  
13 process and system integration.

14  
15 **Q. Has the Company made other efforts to make the Company's service more  
16 economic for its customers?**

17 **A.** Yes. UGI Gas has implemented a series of portfolio changes that allow it, and  
18 Natural Gas Suppliers serving Choice customers on the UGI Gas system to  
19 maximize the purchase of natural gas from the Marcellus and Utica Shale  
20 sources. While the majority of UGI Gas's natural gas purchases were from the  
21 Gulf region in 1995, today nearly all of UGI Gas's natural gas purchases are  
22 physically sourced from Marcellus and Utica Shale sources. The impact related

1 to shale gas on pricing has been significant; while UGI Gas had a purchased gas  
2 price of \$13.62/Mcf in September 2008, the current purchased gas price is  
3 \$4.27/Mcf. This 69% reduction in gas costs not only represents the significant  
4 impact shale production has had on natural gas pricing nationwide, but it also  
5 demonstrates the impact of UGI Gas's efforts to focus on creating value for its  
6 customers.

7  
8 **V. INTERRUPTIBLE REVENUES**

9 **Q. Please explain the Company's proposal relative to revenues received under**  
10 **its Interruptible Service rates.**

11 A. As explained in the testimony of Mr. Stoyko (UGI Gas Statement No. 7), the  
12 construction of natural gas distribution systems is very capital intensive.  
13 However, unlike some other utility services, natural gas is subject to competition  
14 from alternative fuels, direct customer bypass and locational competition, and  
15 there are no uses for natural gas for which there are no other viable energy  
16 alternatives. Competition from alternative energy sources is particularly acute for  
17 UGI Gas's largest customers, and for those with installed alternate fuel  
18 capabilities. UGI Gas currently provides interruptible gas service to  
19 approximately 320 customers, comprising over 40 percent of annual system  
20 throughput, under contracts voluntarily entered into that have rates based on the  
21 alternatives available to such customers, whether that is an alternate fuel option,  
22 an alternative natural gas solution, *i.e.*, physical bypass, or a locational

1 alternative, *i.e.*, moving production to a different facility with lower energy costs.

2 As a result of the capital-intensive nature of natural gas distribution  
3 systems, it benefits all customers if costs can be shared over the largest possible  
4 customer base. However, due to the market risks presented by customers with  
5 installed alternate fuel capabilities served under interruptible rate schedules, UGI  
6 Gas generally does not make distribution system investments to serve such  
7 interruptible loads given the threat that such investments could be stranded  
8 under changing market conditions. To reflect this business reality, Mr. Herbert  
9 presents two cost of service studies: one of which allocates main costs via the  
10 average and excess method outlined by Mr. Herbert, and one which allocates no  
11 main costs to interruptible customers. The Company has based its revenue  
12 allocation and rate design for firm customers based on the average of the results  
13 of these two cost of service studies, while continuing to price interruptible  
14 customers based on market conditions. This approach properly reflects both  
15 cost of service and value of service principles and provides a balanced and  
16 reasonable basis for setting rates.

17 Specifically, UGI Gas proposes to continue its past practice in which it (1)  
18 establishes the overall revenue requirement and revenue allocation for firm  
19 customers based on cost of service, and (2) charges interruptible service  
20 customers value of service prices and retains or absorbs any difference between  
21 cost of service and value of service pricing between rate cases.

22 This approach to the interruptible market provides the proper incentives to



1 ensure the Company will strive to maximize the amount of revenues that can be  
2 achieved from interruptible service customers under higher risk and  
3 unpredictable market conditions over time. It also recovers system costs over  
4 the largest possible customer base, provides for greater rate stability to all  
5 classes, can defer the need for future base rate relief, and will shield firm  
6 customers from the possible adverse ratemaking consequence associated with  
7 the higher risk interruptible market. In my view, this approach produces a better  
8 outcome for all customers as compared to the alternatives of not offering  
9 interruptible service or offering it under an alternate pricing structure that is not  
10 value based. UGI Gas's longstanding success in avoiding the need for base rate  
11 relief is, in significant part, the result of this rate design approach and can be  
12 expected to provide similar future benefits as well.

13  
14 **Q. Please explain how value of service pricing assists the Company in**  
15 **managing its business risk.**

16 **A.** Value of service pricing, to the extent that the Company can charge rates above  
17 a proxy cost of service that allocates reasonable mains investment to  
18 interruptible customers, provides the Company with an additional source of  
19 revenue to maintain a return on investment for the total enterprise that meets the  
20 expectations of its shareholders in return for assuming the risks of the associated  
21 revenue requirement offset. In years where temperatures are warmer than  
22 normal, revenue generated from the interruptible market helps UGI Gas to earn a

1 more stable return. Similarly, as weather becomes colder than normal, firm  
2 usage increases and interruptible usage and related revenue declines as  
3 distribution capacity becomes constrained and interruptions are implemented for  
4 this market segment. Moreover, as usage per customer in our core market has  
5 declined over time, and is expected to continue to decline, having interruptible  
6 revenue, which may contribute to earning a reasonable return, will assist to  
7 support necessary capital attraction at reasonable rates. By doing so, customers  
8 may benefit by being exposed to fewer base rate increases and benefit from the  
9 resulting lower rates. Having value of service based interruptible revenues is one  
10 of the important reasons UGI has not required base rate relief for over 20 years  
11 and has still been able to fund needed capital projects and provide outstanding  
12 service to customers.

13  
14 **Q. Please discuss how value of service pricing provides a source of capital for  
15 use in the Company's capital improvement program.**

16 A. The revenue generated from interruptible customers provides greater cash flows  
17 that are available for the Company to finance its operations. These increased  
18 cash flows would not be available if interruptible rates were determined strictly on  
19 cost of service principles.

20  
21 **Q. Why is value of service pricing appropriate for the interruptible market?**

22 A. Value of service pricing is appropriate for two principal reasons. First,

1 interruptible customers have competitive alternatives and are capable of  
2 choosing those alternatives and leaving the UGI system at any time. It is  
3 reasonable under these circumstances, in the Company's view, to charge these  
4 customers competitive prices because they have competitive alternatives. Cost  
5 of service pricing is more appropriate and indeed is designed for regulated  
6 monopoly conditions, which by definition do not exist where customers have  
7 competitive alternatives. Strict cost of service pricing is not appropriate where a  
8 customer group has verified competitive alternatives for gas service and can  
9 leave the utility system at any time.

10 Second, and relatedly, interruptible customers have the option to become  
11 firm customers and take service under a cost-based firm service rate if they  
12 choose to do so, and to the extent that the system has sufficient capacity to allow  
13 for a conversion to firm service or if they contribute sufficient capital to finance  
14 the investment necessary to render firm service. In fact, UGI Gas has had  
15 interruptible customers elect the firm service conversion option in recent years; in  
16 particular, customers have elected to convert as the real and perceived risk  
17 associated with cold weather interruptions and operational realities have been  
18 experienced over the last two colder-than-normal winter periods.

19 In summary, the Company's proposal to provide a fixed offset to revenue  
20 requirement, which is equal to the proxy cost of service for the interruptible  
21 market in exchange for assuming the ongoing risks related to serving this  
22 competitive market under value of service pricing, properly reflects both cost of

1 service and value of service pricing principles, properly reflects the competitive  
2 alternatives available to interruptible customers, and provides important benefits  
3 to all customers that would not be available under strict cost of service principles.  
4

5 **VI. STRONG MANAGEMENT EFFECTIVENESS AND PERFORMANCE**

6 **Q. Please summarize the Company's initiatives and activities related to**  
7 **management performance.**

8 A. UGI Gas has focused on a number of areas that demonstrate the quality and  
9 effectiveness of UGI Gas's current management performance and its  
10 management's focus on safe, reliable, and outstanding service, as well as a  
11 strong commitment to growth. These management efforts include:

- 12 ○ An accelerated infrastructure replacement plan focused on replacing all  
13 remaining cast-iron and bare steel mains, as further explained in the  
14 testimony of Hans G. Bell (UGI Gas Statement No. 9). UGI Gas already is  
15 a leader in the Commonwealth, as its distribution system is comprised of  
16 the highest percentage of contemporary mains. See Table 2 below.  
17 Moreover, as shown in UGI Gas's LTIIP filed in accordance with Act 11,  
18 the Company projects that it will eliminate all UGI system cast-iron mains  
19 by February 2027 and all bare steel mains by September 2041. The  
20 Commission approved this filing on July 31, 2014, at Docket No. P-2013-  
21 2398833. UGI Gas has just concluded its second year of the 5-year LTIIP  
22 and is ahead of the schedule established by the LTIIP.

Table 2

<b>Percent Contemporary Main (PA NGDCs)</b>	
<b>UGI Gas</b>	<b>86%</b>
<b>UGI PNG</b>	<b>84%</b>
<b>PECO</b>	<b>83%</b>
<b>UGI CPG</b>	<b>82%</b>
<b>Columbia</b>	<b>77%</b>
<b>National Fuel</b>	<b>77%</b>
<b>Peoples</b>	<b>69%</b>
<b>PGW</b>	<b>35%</b>

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16

- o Developing an innovative expansion and extension program (GET Gas), which will invest \$25 million in UGI Gas’s service territory as part of a total \$75 million commitment across the UGI companies to reach new customers in unserved and underserved areas. UGI’s GET Gas program has been highlighted nationwide at American Gas Association events and has been called a model program.
- o Proposing to implement a new rider, the TED Rider, to facilitate non-commercial customers with large up-front payments for line extensions, as further described in the direct testimony of Robert R. Stoyko (UGI Gas Statement No. 7).
- o Managing record growth and managing to increase overall customer counts by over 50% since UGI Gas’s last base rate case in 1995. This growth rate by UGI Gas is the highest among all natural gas distribution companies across the Commonwealth during the same period. UGI Gas’s new customer additions have continually helped to provide incremental

1 revenues, which have helped defer the need for rate relief since 1995.

- 2 ○ Winning the J.D. Power award for customer satisfaction among utilities in  
3 two of the last 3 years, and has won it a total of 7 times since the start of  
4 the J.D. Power award for utility customer satisfaction as further explained  
5 in the testimony of Robert R. Stoyko (UGI Gas Statement No. 7).
- 6 ○ Significantly expanding its universal services offerings since its last rate  
7 case in 1995. As further explained in the testimony of Robert R. Stoyko  
8 (UGI Gas Statement No. 7), UGI Gas now has over 8,000 participants in  
9 its CAP and has committed to fund its LIURP program at an increased  
10 level of \$1.1 million annually.
- 11 ○ Developing and implementing numerous safety improvement initiatives to  
12 reduce injuries and motor vehicle accidents, as further explained in the  
13 testimony of Hans G. Bell (UGI Gas Statement No. 9). These initiatives  
14 include a First Move Forward policy, a 360-degree "cone" policy, a  
15 "Making a Difference" safety program, use of dash-cams to record and  
16 review incidents or close-calls, Smith Driving School training, an annual  
17 Safety Summit involving all employees, establishing safety committees for  
18 root cause review, and Company-wide education and appropriate  
19 employee coaching and engagement tracks.
- 20 ○ Focusing on increasing spend with Minority and Women-Owned  
21 Businesses ("MWBEs"). Since 2011, UGI has increased MWBE spending  
22 significantly, increasing Women-Owned spending by over 100% and

1           Minority-Owned spending by over 400%. UGI's overall MWBE spending  
2           of 11.6% ranks above the utility industry average of 11.4%, as published  
3           in the 2012 Supplier Diversity Program Performance study conducted by  
4           nationally recognized CAPS Research.

- 5           ○ Launching a Company-wide initiative, UGI-1, which is aligning UGI's  
6           people, processes and tools to drive additional efficiencies and  
7           effectiveness across the organization, including the implementation of new  
8           state-of-the-art customer information, work management and other  
9           supportive systems.
- 10          ○ Undertaking the UNITE Project to further improve customer service. As  
11          explained in the direct testimony of Thomas N. Lord (UGI Gas Statement  
12          No. 8), the UNITE Project is a multi-year, multi-phased information system  
13          modernization project. Phase 1 of the Project entails the development  
14          and implementation of a new CIS to replace our two legacy mainframe  
15          CIS systems. This new CIS will harmonize the two systems and provide  
16          increased functionality and improved customer service.
- 17          ○ Proposing to implement an EE&C Plan. The EE&C Plan is a  
18          comprehensive portfolio of energy efficiency and conservation programs  
19          that was designed to assist customers save energy through various cost-  
20          effective measures. The full contents of the EE&C Plan are described in  
21          detail in the direct testimony of Theodore M. Love (UGI Gas Statement  
22          No. 11).

1 In addition to these management efforts, it should be noted that UGI Gas has  
 2 been able to provide excellent service to customers at just and reasonable rates.  
 3 The above-described initiatives, as well as those described by the other  
 4 witnesses, UGI Gas will continue to improve service to customers.

5 It also should be noted that, as shown earlier, current UGI Gas residential  
 6 distribution rates are the lowest in the Commonwealth. Further, even if UGI  
 7 Gas's proposed residential rates are implemented, the average monthly bill for a  
 8 residential heating customer will be 3.2% lower today than the average bill  
 9 following the Company's last base rate case in 1995. Comparatively, the price  
 10 for many household consumer products has increased significantly over that  
 11 same time period. Tables 3 and 4 below, provide that comparison.

Table 3

<b>Household Items</b>			
	<b>Price (\$) September 1995</b>	<b>Price (\$) November 2015</b>	<b>Percent Increase</b>
<b>Pound of White Bread<sup>1</sup></b>	0.81	1.41	74%
<b>Dozen of Grade A Large Eggs<sup>1</sup></b>	0.96	2.66	179%
<b>Gallon of Whole Milk<sup>1</sup></b>	2.46	3.30	34%
<b>Postage Stamp<sup>2</sup></b>	0.32	0.49	53%

<sup>1</sup> Source: U.S. Bureau of Labor Statistics, *Consumer Price Index-Average Price Data*

<sup>2</sup> Source: United States Postal Service, *Rates for Domestic Letters Since 1863*

Table 4

<b>UGI Average Monthly Bill</b>			
	<b>Amount (\$) September 1995</b>	<b>Amount (\$) January 2016 (Proposed)</b>	<b>Percent Change</b>
<b>Residential Heating</b>	64.01	61.97	-3.2%



1           The Company believes that the management efforts described above and the  
2           other improvements described by the UGI Gas witnesses in this proceeding, as  
3           well as the Company's provision of service at reasonable rates, support an  
4           additional upward adjustment to the Company's rate of return in recognition of its  
5           management effectiveness.

6

7   **Q.    Does this conclude your direct testimony?**

8   **A.    Yes, it does.**

**UGI GAS EXHIBIT PJS-1**

**PAUL J. SZYKMAN**

**VICE PRESIDENT – RATES & GOVERNMENT RELATIONS  
VICE PRESIDENT & GENERAL MANAGER – ELECTRIC UTILITIES**

March 2015 – Present	Vice President – Rates & Government Relations Vice President & General Manager – Electric Utilities UGI Utilities, Inc., Reading, PA
2014 – 2015	Vice President – Rates & Government Relations UGI Utilities, Inc., Reading, PA
2008 – 2014	Vice President – Rates UGI Utilities, Inc., Reading, PA
2003 – 2008	Director, Rates & Gas Supply UGI Utilities, Inc., Reading, PA
2001 – 2003	Manager, Rates & Strategic Planning UGI Utilities, Inc., Reading, PA
1999 – 2001	Manager, Federal Regulatory Affairs & Contract Admin. UGI Utilities, Inc., Reading, PA
1999 – 1999	Principal AMS, Fairfax, VA
1996 – 1999	Manager, Rates & Strategic Planning UGI Utilities, Inc., Reading, PA
1994 – 1996	Supervisor, Transportation UGI Utilities, Inc., Reading, PA
1991 – 1994	Rate Designer UGI Utilities, Inc., Reading, PA
1989 – 1991	Market Research Analyst UGI Utilities, Inc., Reading, PA
1986 – 1989	Industrial / Commercial Representative UGI Utilities, Inc., Reading, PA
1981 – 1985	Penn State University B.S. Mechanical Engineering

Previous testimony before the Pennsylvania Public Utility Commission at the following Dockets:

- R-00932927,
- R-00016376,
- R-00016376C0002,
- P-00032043,
- P-00032054,
- R-00049422,
- R-00050539,
- R-00061502,
- R-00072334,
- R-00072335,
- R-2008-2039284,
- R-2008-2039417,
- R-2008-2079675,
- R-2008-2079660,
- R-2009-2105911,
- R-2009-2105904,
- R-2009-2105909, and
- R-2010-2214415.