

BEFORE THE
HOUSE OF REPRESENTATIVES
CONSUMER AFFAIRS COMMITTEE

WRITTEN TESTIMONY

OF

ROBERT R. STOYKO

VICE PRESIDENT – CUSTOMER RELATIONS

UGI UTILITIES, INC.

ADDRESSING H.B. 107

Dated: April 26, 2017

I. INTRODUCTION

My name is Robert R. Stoyko, and I am Vice-President – Customer Relations for UGI Utilities, Inc. – Gas Division (“UGI-GD”), and I appreciate this opportunity to present testimony today in support of HB 107 on behalf of UGI-GD and its wholly-owned subsidiaries, UGI Penn Natural Gas, Inc. (“UGI PNG”) and UGI Central Penn Gas, Inc. (“UGI CPG”) (collectively “UGI”).

By way of background, UGI provides natural gas distribution service to in excess of 626,000 customers all or portions of 44 counties in Pennsylvania, and has facilities in approximately 834 of the Commonwealth’s municipalities. UGI’s distribution systems include approximately 12,000 miles of gas distribution mains.

From 2008 through the end of fiscal 2017, apart from its GET Gas initiative discussed below, UGI will spend over \$400 million on new business extensions while adding approximately 150,000 new customer accounts, comprised of extensions to new construction, conversions from alternative energy sources and upgrades to space heating at locations where gas was used for other purposes such as cooking. This level of customer growth occurred even though there was a substantial drop in new residential construction during the recession that started in 2008, and in the case of the residential market, generally occurred relatively near to existing mains and hence did not require a substantial up-front customer contribution.

According to the Energy Information Agency of the Department of Energy, as of 2014 natural gas was the largest energy source in Pennsylvania, and provided heat to over one half of Commonwealth homes. In the eastern part of the state, where UGI’s service territories are predominantly located, natural gas often competes with fuel oil or electric and its share of the energy market is typically lower than in the western part of the state.

UGI's distribution systems are part of a larger natural gas energy grid that includes interstate pipelines and storage facilities, gathering lines and peaking facilities, which enable the delivery of natural gas to, amongst others, natural gas distribution companies ("NGDC") such as UGI. Under current federal regulatory policies, the costs of the natural gas commodity and many of the delivery and storage services are set by market forces, with other services being subject to traditional rate regulation administered by the Federal Energy Regulatory Commission. The costs of the commodity as well as the associated delivery and storage services costs are recovered, in the case of NGDCs, through the Purchased Gas Cost ("PGC") component of their customer bills without mark-up, or, in the case of customers that elect to shop for their natural gas service, through the charges of their PUC-licensed natural gas suppliers.

UGI delivers natural gas through its utility pipeline systems in accordance with rates and terms and conditions of service established by the PUC. Its rate for delivery service, or "base rates", are periodically determined by the PUC in base rate proceedings, and are generally set on a uniform basis for entire classes of customers after consideration of cost of service studies which seek to determine the portion of system costs attributable to that class of customer. Since adding new customer at an above average cost can place upward pressure on the base rates of all customers in a rate class under this system of rate making, traditional line extension policies have required applicants for service to pay up-front for that portion of line extension costs in excess of an investment amount which would be considered justified based on anticipated revenues from the applicant.

II. FACTORS DETERMINING SYSTEM EXPANSION

The pace and location of system expansion is driven by customer demand. Potential consumers of nature gas must, from an economic perspective, balance the expected all-in costs

(i.e. commodity costs, distribution costs and the costs of any necessary fuel lines and gas-burning equipment) of gas service as compared to the all-in costs of energy alternatives. If there is an existing heating system in place, customers are generally reluctant to change energy systems until their existing system needs to be replaced. In many instances, customers who might reasonably expect to achieve long-term savings by converting to natural gas may be inhibited from doing so because of a lack of access to necessary capital or credit sources required to pay contributions or for fuel lines and gas equipment. In other instances, consumers may expect long-term savings and may have access to capital, but may be reluctant to make a long-term commitment because they do not expect to be residing at a service location long-enough to experience long-term savings. In yet other instances customers may not be able to easily understand the financial implications of potential long-term savings.

III. Current UGI Initiatives

The abundance of natural gas caused by the shale gas revolution has in recent years resulted in a sustained decline in natural gas commodity prices, a decoupling or divergence between natural gas prices and oil prices, and an increased interest in natural gas service from prospective customers, which more recently has been somewhat attenuated as the price gap between natural gas and oil has decreased. In response to these market forces, UGI has taken a number of actions.

Enhanced Customer Communication

UGI has implemented a robust multi-channel communications strategy to help educate consumers about their energy options, including online energy savings calculators, and has implemented new systems to streamline the handling of applicant inquiries about the availability and costs of gas system extensions.

UGI's GET GAS PILOT

Despite its history of robust new customer additions, UGI recognized that there was a class of prospective customers that were declining gas service if they were required to provide up-front contributions above a certain level. UGI also realized that its existing line extension rules did not easily apply to situations where an entire new geographic area was completely unserved, as initial applicants for service would be unduly burdened by initial system expansion costs. Thus, UGI proposed and implemented, with PUC approval and support, its nationally recognized five-year \$75 million Growth Extension Tariff ("GET Gas") program.

Under GET Gas, system expansion costs for the class of qualifying customers that generally rejected gas service under traditional line extension rules are not recovered through large up-front payments, but are instead recovered through a uniform class-wide surcharge that is applied to the bills at the service address for a set period of time with a customer option to prepay remaining GET Gas obligations through a lump-sum payment that declines over time. The surcharge reflects reasonable assumptions about future customer additions to the extended facilities, and customers that subsequently connect to GET Gas extensions pay the surcharge for a defined period as well. The GET Gas surcharge applies to the service address, and not the customer, and thus removes a disincentive from customers with a short-term horizon from making energy decisions that will result in long-term savings.

By the end of this year, UGI's GET Gas program will have made natural gas service available to nearly 2,800 homes and businesses, and UGI is gathering important information to help shape future system expansion policies as a result of the GET Gas program. Examples of GET Gas projects include (a) the Riverside project in Cumberland County, where expanded or extended access to natural gas has been made available to 168 parcels and is scheduled to be

made available to approximately 450 additional parcels next year; (b) the Wyomissing project in Berks County, where expanded or extended access to natural gas has been made available to 402 parcels and is scheduled to be made available to an additional 201 parcels; (c) and a scheduled project in Dupont Borough, Luzerne County. In instances such as the Riverside project and the planned project in Dupont Borough, UGI Get Gas projects have been greatly assisted by the cooperation of affected municipalities that have streamlined or waived certain permit fees and other regulations.

TED Rider

At UGI-GD UGI has proposed, and with PUC-approval has implemented, a three-year Technology and Economic Development (“TED”) rider that permits additional rate flexibility for certain commercial and industrial rate schedules needed to meet individualized customer situations to encourage economic line extensions and adoption of innovation gas technologies such as combined heat and power installations, fuel cells and natural gas vehicle fueling stations. A similar pilot TED rider has been proposed in UGI-PNG’s base rate case. The TED Rider is already facilitating profitable additions on the UGI-GD system, and UGI fully expects this pilot program to be a long-term success that both adds new loads to UGI’s systems and attracts and maintains businesses seeking to gain a competitive advantage by obtaining access to the region’s abundant natural gas supplies.

IV. HB 107 WILL PERMIT FURTHER RATE INNOVATION

UGI fully supports HB 107 as it recognizes and preserves the important role of the PUC in balancing the many interest involved in setting expansion policies, includes consumer protections, and provides clear authority to the PUC and guidance from the General Assembly concerning rate mechanisms and standards that may be proposed by NGDCs and considered by

the PUC. UGI appreciates the flexibility HB 107 provides as the circumstances faced by individual NGDCs may require differing approaches and solutions tailored to local conditions.

It is UGI's belief that all customers ultimately benefit from cost-effective expansions of distribution systems either through the deferred or reduced need for base rate relief as fixed costs are shared over a larger customer base. While the exact timing and size of such long-term benefits may be hard to quantify with precision, HB 107 would permit the PUC to consider this and other expansion benefits by authorizing, where appropriate, modest levels of cost recovery from existing customers for economically feasible system expansions.

HB 107 also addresses potential barriers to system expansion caused by the upfront costs customers must incur to install fuel lines or gas-burning equipment after gas lines are extended by authorizing, where appropriate, such costs to be recovered through base rates. I believe this provision will make natural gas service a practical reality for many prospective customers.

UGI is convinced that HB 107 has the potential to accelerate gas system expansions in a responsible and balanced manner, and that such expansions are good news for all of Pennsylvania's citizens. Pennsylvania is now the second largest natural gas producer in the United States, and by making this bounty available to more of Pennsylvania's citizens and businesses, the Commonwealth has and will continue to see increases in employment, enhanced regional development, an improved environment and increased energy security.

In this regard, I would like to take this opportunity to thank Chairman Godshall, the members of this committee and the Pennsylvania General Assembly for their past and continuing efforts in appropriating funds and in establishing wise public policies to help the Commonwealth and its citizens experience the benefits of the shale gas revolution. I firmly believe that the abundance of natural gas created by the advances in shale gas extraction over the past decade

have created a competitive advantage for the Commonwealth in attracting new businesses and creating new employment opportunities. UGI looks forward to continuing its efforts to attract and retain businesses, to expand employment opportunities, to improve the Commonwealth's environment by displacing less environmentally beneficial energy sources, and to deliver energy savings to consumers by striving to improve and expand its natural gas distribution systems in cooperation with the municipalities it serves. UGI believes HB 107 will assist it in reaching these goals, and fully supports its passage.



Energy to do more®

UGI supports House Bill 107 as it will provide additional authority and guidance to the PUC and NGDCs as they build on existing efforts to expand the availability of natural gas service in underserved and unserved areas in a responsible manner – UGI appreciates the efforts the General Assembly and PUC have taken to approve and support innovative policies.

GAS EXPANSION INVOLVES A BALANCING OF INTERESTS

- **Markets** largely determine the price of energy alternatives through the balance of supply and demand; only a portion of costs consumers consider in evaluating natural gas service is subject to regulation by the FERC and PUC.
- **Customers** must balance many considerations, including the expected all-in costs (i.e. commodity, distribution and capital) of natural gas service against the all-in costs of energy alternatives, access to capital, the expected life of existing heating systems, and the period over which they expect to realize anticipated savings in making their energy choices.
- **The PUC** must balance the interests of existing customers with the interests of applicants to make sure that existing customers are not unduly burdened by uneconomic expansions of natural gas systems.
- **NGDCs** must balance their need to attract capital and keep natural gas service affordable against their desire to expand to serve new areas or markets.

UGI INITIATIVES

- **Customer Communication** - UGI conducts robust efforts across multiple channels to inform existing and prospective customers about the potential benefits of natural gas service so that informed decisions can be made.
- **GET GAS Pilot** - UGI, with PUC approval and much-appreciated assistance, has implemented a five-year \$75 million nationally recognized pilot Growth Extension Tariff (“GET GAS”) (in addition to the over \$400 million UGI has spent in the most recent 10 years on new business expansion) to reduce contribution burdens on applicants seeking more costly extensions by (a) permitting UGI to consider reasonable anticipated future customer additions along the extension path, (b) averaging costs across all qualifying applicants, (c) permitting expansion costs to be paid over time (or at the customer’s election through a lump-sum payment that declines over time) through a bill surcharge that remains with the service address. By the end of this year, GET Gas will have made natural gas service available to nearly 2800 homes and businesses.
- **TED Pilot** – With PUC approval, UGI has implemented a three-year pilot program which permits additional rate flexibility for certain rate schedules to assist in addressing individual customer requirements needed for the extension of gas service and/or the adoption of new gas technologies (such as combined heat and power, fuel cells, natural gas vehicle fueling stations), while ensuring the profitability of the overall expansion project to protect existing customer interests.

HB 107 WILL PERMIT FURTHER APPROPRIATE INNOVATION

- HB 107 recognizes and preserves the important role of the PUC in balancing the many interests involved in setting expansion policies, provides consumer protections, and provides clear authority and guidance from the General Assembly concerning rate mechanisms and standards that may be proposed by NGDCs and considered by the PUC.
- All customers ultimately benefit from cost-effective expansions of natural gas distribution systems either through the deferred or reduced need for base rate relief resulting from the sharing of fixed costs over a larger customer base; HB 107 would permit the PUC to recognize this and other potential expansion benefits by authorizing, where appropriate, modest levels of cost recovery for economically feasible line extensions.
- Some customers are deterred from switching to gas service because of the capital costs of in-house piping and natural gas equipment; HB 107 would reduce this barrier, where appropriate, by permitting such costs to be recovered through distribution rates.
- HB 107-authorized programs could increase employment, spur regional economic development, help the environment and increase energy security.