BOOK III

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 – HANS G. BELL
UGI GAS STATEMENT NO. 2 – TRACY A. HAZENSTAB
UGI GAS STATEMENT NO. 3 – VIVIAN K. RESSLER
UGI GAS STATEMENT NO. 4 – JOHN F. WIEDMAYER
UGI GAS STATEMENT NO. 5 – VICKY A. SCHAPPELL

UGI UTILITIES, INC. – GAS DIVISION
PA P.U.C. NOS. 7 & 7S
SUPPLEMENT NO. 55

DOCKET NO. R-2024-3052716

Issued: January 27, 2025 **Effective: March 28, 2025**

UGI GAS STATEMENT NO. 1

HANS G. BELL

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Docket No. R-2024-3052716

UGI Utilities, Inc. – Gas Division

Statement No. 1

Direct Testimony of
Hans G. Bell

Topics Addressed:	**Purpose of Testimony and Rate Filing Overview** **Need for Rate Relief** **Compensation Adjustments** **Cybersecurity Audit Adjustment** **Competitive Customer Analysis** **Management Effectiveness and Performance**

Dated: January 27, 2025

I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Hans G. Bell. My business address is 1 UGI Drive, Denver, PA 17517.

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

A. I am employed by UGI Utilities, Inc. ("UGI") as its President. UGI is a wholly-owned subsidiary of UGI Corporation ("UGI Corp."). UGI has two operating divisions, the Gas Division ("UGI Gas" or the "Company") and the Electric Division ("UGI Electric"), each of which is a public utility regulated by the Pennsylvania Public Utility Commission ("Commission" or "PUC").

Q. Please briefly describe your responsibilities in that capacity.

A. As President, I am accountable for delivering the overall business performance to ensure adequate, efficient, safe, reliable, and reasonable natural gas and electric utility service to UGI's customers.

Q. What is your educational and professional background?

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

Q. Have you testified previously before this Commission?

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

II. PURPOSE OF TESTIMONY AND RATE FILING OVERVIEW

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

A. My testimony addresses several areas. First, I present an overview of the rate filing, including a brief explanation of the reasons for rate relief and an outline of the testimony of each witness in this proceeding. Second, I describe certain compensation adjustments related to both salaries and wages as well as anticipated impacts resulting from upcoming contract negotiations with certain unions in the future test year ("FTY"). These compensation adjustments are, or will be, reflected as additions to the fully projected test year ("FPFTY") budgets, which are the starting point for UGI Gas's claim in this proceeding. Third, I discuss an adjustment which is being made related to UGI's biennial cybersecurity audit. Fourth, I discuss the Company's compliance with the competitive customer analysis, as required in the 2019 Rate Case Settlement at Docket No. R-2018-3006814. Lastly, I summarize the evidence of UGI Gas's successful management performance and propose how it should be recognized in this case.

Q. Are you sponsoring any exhibits in this proceeding?

A. I am sponsoring UGI Gas Exhibit HGB-1. Also, I am sponsoring certain responses to the Commission's standard filing requirements, as indicated on the master list accompanying this filing.

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

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

Tracy A. Hazenstab (UGI Gas Statement No. 2) holds the position of Sr. Manager – Utility Rates for UGI Gas. She addresses operating revenues and expenses; compliance with Section 1301.1 of the Public Utility Code; and the revenue requirement model supporting the Company's proposed rate increase, UGI Gas Exhibit A (Fully Projected). Ms. Hazenstab also sponsors the revenue requirement models for the future and historic periods, UGI Gas Exhibit A (Future) and UGI Gas Exhibit A (Historic), respectively.

Vivian K. Ressler (UGI Gas Statement No. 3) holds the position of Director – Utility Financial Planning & Analysis ("FP&A") at UGI. Ms. Ressler explains UGI Gas's accounting processes used to develop the Company's actual book accounting results, which are the basis for the Historic Test Year ("HTY") ended September 30, 2024. Ms. Ressler also presents UGI Gas's rate base claim for the HTY, FTY, and FPFTY. Ms. Ressler further addresses the budgeting process and certain operating expense adjustments, as well as the Company's accounting for information technology costs.

John F. Wiedmayer (UGI Gas Statement No. 4) holds the position of Project Manager at Gannett Fleming Valuation & Rate Consultants, LLC. Mr. Wiedmayer developed and supports UGI Gas's claim for annual depreciation expense, and the accumulated depreciation reserve. His studies are presented in UGI Gas Exhibit C (Fully Projected), UGI Gas Exhibit C (Future) and UGI Gas Exhibit C (Historic).

Vicky A. Schappell (UGI Gas Statement No. 5) holds the position of Sr. Manager, Capital Planning for UGI Gas. Ms. Schappell addresses capital expenditures and capital planning, including those for including the plant in service expenditures for the FTY and FPFTY.

Proposed spending addressed by Ms. Schappell includes two large IT projects – Field Services Management ("FSM") and Extended Asset Accounting ("EAA").

Paul R. Moul (UGI Gas Statement No. 6) holds the role of Managing Consultant of P. Moul & Associates, Inc. Mr. Moul presents expert testimony supporting the Company's claimed capital structure, cost of debt, cost of common equity, and overall fair rate of return. Schedules and workpapers supporting Mr. Moul's findings are set forth in UGI Gas Exhibit B (Rate of Return).

Darin T. Espigh (UGI Gas Statement No. 7) holds the position of Sr. Manager – Natural Gas Tax Accounting. Mr. Espigh addresses various tax issues, including 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 repairs allowance and the differential consolidated tax use calculation as required by Section 1301.1 of the Public Utility Code.

Sherry A. Epler (UGI Gas Statement No. 8) holds the position of Senior Manager Tariff and Supplier Administration for UGI Gas. Ms. Epler's testimony addresses the development of the Company's HTY, FTY and FPFTY test year sales and revenues. In addition, Ms. Epler addresses several proposed tariff updates. Ms. Epler sponsors UGI Gas Exhibit E (Proof of Revenue) and UGI Gas Exhibit F (Current and Proposed Tariffs).

Christopher R. Brown (UGI Gas Statement No. 9) holds the position of Vice President of Operations. Mr. Brown's testimony addresses UGI Gas's operations and natural gas system. In addition, Mr. Brown discusses UGI Gas Long-Term Infrastructure Improvement Plan ("LTIIP"), and the impact of the LTIIP and other initiatives on system performance, safety, and reliability. Also, Mr. Brown addresses UGI Gas's efforts and future plans to investigate and, where necessary, remediate sites in Pennsylvania where UGI Gas or corporate predecessors once owned and/or operated manufactured gas plants in connection with gas utility operations. Lastly, Mr. Brown details and supports several key areas of focus and related adjustments related to his testimony topics: (a) Pipeline Contractor price increase impacts; (b) Material Verification of Transmission Assets; and (c) Advanced Leak Detection activities.

John D. Taylor (UGI Electric Statement No. 10) is a Managing Partner of Atrium Economics LLC. Mr. Taylor prepared and sponsors UGI Gas's fully allocated cost of service study. This study is contained in UGI Gas Exhibit D. The Allocated Cost of Service Study ("ACOSS") allocates the Company's cost of service associated with Commission jurisdictional operations to the Company's customer classes. Mr. Taylor also addresses the Company's proposed revenue allocation and rate design.

III. <u>NEED FOR RATE RELIEF</u>

Q. Please discuss UGI Gas's proposed rate relief request and provide an overview of the Company's proposals in this proceeding.

A. UGI Gas is requesting an increase in its annual base rate operating revenues of $110.395 million, or 9.7 percent on a total revenue basis, with a proposed effective date of March 28, 2025. The base rate increase requested in this filing utilizes a FPFTY ending September 30, 2026. UGI Gas continues to make substantial distribution system investments that are necessary to: (1) continue the accelerated replacement of aging gas plant infrastructure; (2) upgrade and improve system segments and modernize facilities; (3) serve new residential and commercial customers, including natural gas conversions; (4) install and upgrade supporting information technology systems; and (5) most importantly, ensure the safety of the Company's employees, customers, the communities it serves, and its distribution system. Moving forward, these system improvements and investments will require the Company to continue its efforts to attract, recruit, train, and retain those professional, technical, and field-qualified personnel and resources necessary to implement, operate, and maintain those investments. These investments are all necessary to grow and continue to maintain a safe and reliable distribution system and provide quality customer service. As compared to pre-FPFTY gross plant levels, UGI Gas is projecting an increase of approximately $423 million in gross plant through the FPFTY compared to the end of the FTY and $786 million in gross plant when compared to the end of the HTY. Based on this factor alone, UGI Gas's current rates will not provide it with a reasonable opportunity to earn a fair rate of return on its increased rate base investments.

Other cost drivers also reduce the Company's ability to earn a reasonable rate of return on its utility investments. Since its last base rate case in 2022, UGI Gas has adopted certain wage and salary adjustments in order to retain and attract qualified employees. UGI Gas will continue to do so where necessary to maintain a productive and effective workforce and, additionally, has plans for certain compensation adjustments that I discuss below. The Company has also experienced other price increases for necessary products and services. The Company has specifically budgeted in the FTY and FPFTY for needed increases to staffing levels to maintain reliability, regulatory compliance, and continued improvement in several areas, most notably, operations and training. While UGI Gas continues to focus on efficient operations and has seen stable customer growth over time, the Company's forecasted increases in operating and capital costs, along with experienced and anticipated changes in per customer usage, will prevent UGI Gas from having a reasonable opportunity to earn a fair rate of return on its investment at present rates.

Specifically, as reflected in UGI Gas Exhibit A (Fully Projected), Schedule A-1, UGI Gas's operations are projected to produce an overall return on rate base of 6.45%, which equates to a return on common equity of only 7.56% for the twelve-month period ending September 30, 2026. As explained by UGI Gas witness Paul R. Moul (UGI Gas Statement No. 6), those returns are inadequate based on applicable financial analysis and the risks confronted by UGI Gas. Unless UGI Gas receives the requested rate relief, those projected returns will continue to decline. This could potentially jeopardize UGI Gas's ability to attract the capital needed to make investments that support operating a safe and reliable distribution system and enhance the reach and capacity of facilities that are required for system growth. Moreover, with its requested rate relief, UGI Gas will have the opportunity to earn a sufficient return on investments needed to continue replacing older, more risk prone facilities, systems, and equipment, each of which is necessary to ensure continued system reliability, safety, and customer service performance.

Q. Has the Company evaluated the impact of its proposed rate increase on average customer bills generally?

A. Yes. As shown in Table 1, below, the Company has evaluated the impact of its proposed rate increase on the average monthly bill of residential heating, commercial heating, and industrial customers.[1]

Table 1 – Average Customer Bill Impact

	Usage	Current	Proposed	Change	% Change
Residential Heating	73.7 ccf	$ 104.47	$ 115.74	$ 11.27	10.8%
Commercial Heating	28.3 Mcf	$ 305.44	$ 331.80	$ 26.36	8.6%
Industrial	75.4 Mcf	$ 765.99	$ 823.42	$ 57.43	7.5%

The average customer monthly bill impacts set forth in Table 1, above, are fair and reasonable because UGI Gas will utilize the increase in distribution rates to support its ongoing provision of safe and reliable distribution service for its customers. As detailed below, even with this increase, UGI Gas will continue to have distribution rates that compare favorably to other Pennsylvania natural gas distribution companies ("NGDCs") on a total bill basis, inclusive of natural gas costs. The proposed customer charges also reasonably reflect cost-of-service principles, while considering the rate design principle of gradualism.

Q. What other key proposals are included in this general rate increase filing?

A. UGI Gas proposes in this proceeding to complete the transition to uniform distribution rates for Rate DS across the former North and South/Central Rate Districts, an effort proposed

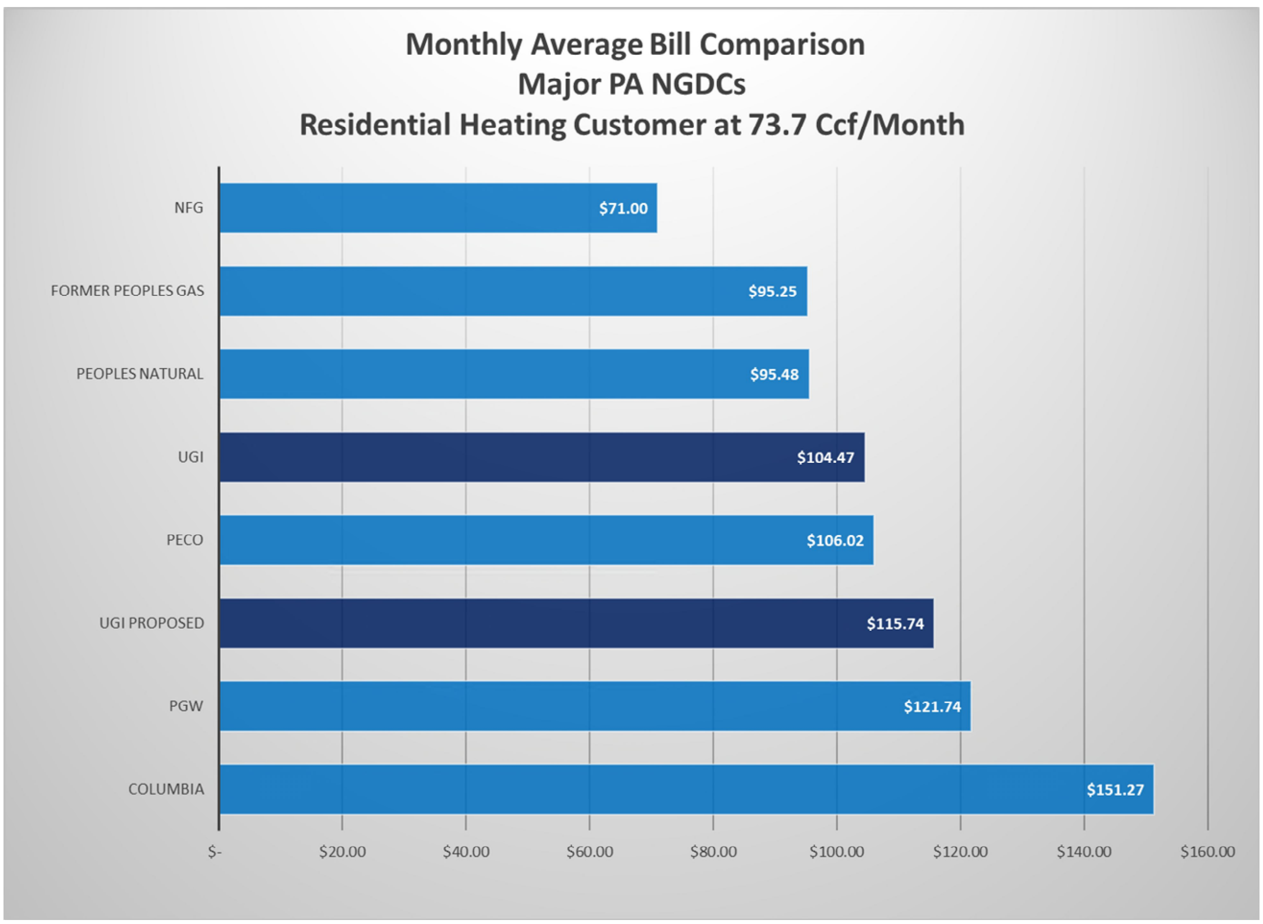
[1] Current bills are based on rates in effect as of December 1, 2024, and reflect gas commodity being purchased from UGI Gas.

but not completed as part of the Company's 2019, 2020, and 2022 rate cases. This proposal is discussed in more detail in the testimony of John D. Taylor (UGI Gas Statement No. 10).

Q. How do UGI Gas's rates compare with other Pennsylvania utilities?

A. A comparison of average residential heating bills, shown in Table 2 below, illustrates that UGI Gas's current distribution rates compare favorably to the rates of other major NGDCs in the Commonwealth, and will remain so, even at the full increase of proposed rates.

<u>Table 2 – Residential Heating Distribution Rate Comparison</u>



In considering UGI Gas's overall rates, it is also important to note that the Company continues to maintain a natural gas supply portfolio that is designed to maximize the benefits associated with the Commonwealth's shale gas supply resources. Also, the Company continues to support the development of environmentally beneficial gas sources. In addition to the Company's initial renewable natural gas ("RNG") interconnect, UGI Gas now has completed two other interconnects, permitting RNG to be utilized by numerous customers as part of their supply elections and the Company's supply portfolio. RNG stands to provide numerous benefits to the natural gas industry and its consumers as related to the provision of lower-carbon solutions that can be readily integrated into existing natural gas systems. Even with the rate changes proposed in this proceeding, the average residential heating customer bill will be 14% lower than it was in 2008 when natural gas commodity prices were materially higher. In summary, UGI Gas offers excellent service to customers at reasonable rates.

Q. When does the Company anticipate that it will file its next base rate case?

A. UGI Gas anticipates that it will be filing another rate case approximately one year following the filing of this base rate proceeding, as significant capital investment amounts similar to those projected for the FPFTY are projected to continue and will drive the need for additional timely rate relief.

IV. COMPENSATION ADJUSTMENTS

Q. Is the Company making any adjustments to its original FPFTY budget as related to Salaries and Wages in this filing?

A. Yes, the Company recently initiated a compensation benchmarking review of salaries and wages in order to assess the Company's market competitiveness related to compensation for numerous positions within the organization. The compensation benchmarking was completed by Willis Towers Watson ("WTW"), an industry expert that regularly provides these services to companies such as UGI. The WTW review served to identify numerous positions which currently fall below desired competitive levels for compensation, both in terms of base compensation and bonus incentive compensation.

Q. What adjustment is the Company proposing to the original FPFTY budget as related to Salaries and Wages?

A. As discussed in further detail below, the total annualized salary and wage adjustment related to benchmarking adjustments is $5.399 million, inclusive of related benefit costs of 12% ($4.813 million base compensation and $0.586 million bonus incentive compensation). Of this amount, $2.397 million will impact operating expense. Accordingly, Schedule D-9 for the FPFTY incorporates an adjustment for the operating expense impact of this unbudgeted adjustment of $2.397 million ($2.106 million base compensation and $0.291 million bonus incentive compensation).

Q. Please describe the specific needs which are being addressed by the compensation adjustments that the Company has included in this filing.

A. UGI's benchmarking activity is critically important to the Company's ongoing efforts to attract, recruit, train and retain those professional, technical and field-qualified personnel and resources necessary to implement, operate, and maintain a safe and reliable natural gas distribution system for all customers. The market has shown robust labor demand as evidenced by employee turnover metrics, with recent year turnover continuing at high levels. In fact, like many companies in the current labor market, UGI has experienced an increase in voluntary employee turnover, as the available labor market has become constrained and increasingly competitive. This is particularly true for roles that require experienced employees. As a result of the current job market, more employees, including those with years of regulated utility experience, are moving on to other opportunities outside of UGI Gas, or moving out of the workforce via retirement. From Fiscal Year 2023 to Fiscal Year 2024, voluntary exempt turnover increased from 7.6% to 8.4%.

In some instances, the Company encountered difficulties finding internal interest for certain critical exempt positions, evidencing a need to address relative compensation levels across expected career pathways to assure effective progressions occur for those with appropriate qualifications. For instance, experienced non-exempt employees (e.g., long term field employees) with advanced classifications in operations possess key experience and knowledge requirements necessary to fill exempt supervisory roles. From a compensation competitiveness standpoint, such exempt supervisory roles must be established at a compensation level which reflects that pay for a non-exempt supervisory role, including overtime and other pay premiums, will be lost when transitioning to an exempt supervisory role. Overall, the purpose of implementing all of the proposed salary and wage adjustments is to improve UGI Gas's ability to: (1) retain existing experienced employees; (2) continue employee development and advancement; and (3) compete for qualified employees to fill needed roles in a very competitive job market.

Q. Please describe the basis for the compensation benchmarking adjustments that the Company is making in this case.

A. WTW reviewed current exempt and non-exempt employee compensation levels against benchmark data provided by two primary surveys: (1) the 2024 Willis Towers Watson American Gas Association Compensation Survey (44 participants); and (2) the 2024 Willis Towers Watson Energy Services Middle Management and Professional Services Survey (164 participants). These surveys were utilized to perform position matching, compensation comparisons and quantification of adjustments where position compensation was found to be behind market, both in terms of base and bonus compensation amounts. Additionally, on an individual employee level, compensation was reviewed for appropriate relationship to midpoint compensation targets. More specifically, WTW performed an independent review and analysis of the Company's pay structure and salaries compared to industry-specific benchmark surveys and then compared current individual employee compensation levels to the survey midpoints by role, or other survey data where a job match could not be identified utilizing WTW's industry-specific data. The use of the midpoint survey data comports with the Company's goal to establish compensation at the fiftieth percentile level. Additionally, time in position was used to create a target salary at various service levels and link with those relative targets to the midpoint of the salary recommendations. A mapping of this data for specific position incumbents then determined which specific employees warranted adjustments (i.e., less than 3-5 years of service would fall in relative target increments against the midpoint market compensation levels).

Q. Can you please provide the summary detail of the *base* compensation benchmarking adjustments?

A. Yes, the chart below outlines the number of employees affected by the base compensation adjustments, by functional department and details operating expense impacts related to the base adjustments and associated bonus incentive compensation impacts of these changes based on the employees' position grade level and predetermined time allocations as related to FY2026, or the Company's FPFTY period. The total annualized salary and wage adjustment related to these base compensation benchmarking adjustments is $4.813 million, inclusive of related benefit costs of 12%. Of this amount, $2.106 million will impact operating expense. Consequently, Schedule D-9 for the FPFTY incorporates an adjustment for the operating expense impact of this unbudgeted adjustment of $2.106 million.

Table 3: Base Compensation Benchmark Adjustment Impacts by Functional Department

	Count of Employee Adjustments	Base Compensation Change Impact (FPFTY)	OPEX Impact of Change (FPFTY)	Bonus Impact Related to the Base Change (FPFYT)	Opex Bonus Incentive Impact of Base Change (FPFTY)
Accounting, Bldg & Grounds, Business Support Services, Claims, Finance, Fleet	11	$ 78,457	$ 19,758	$ 5,747	$ 1,339
Capital Planning, Capital Project Management, Capital Construction, Corrosion Control, Damage Prevention, Dispatch, Leak Survey, Meter Shop, M& R Support, Operations, Stores	169	$ 1,970,884	$ 865,317	$ 138,498	$ 68,295
Engineering, GIS, Telemetry, Standards and Materials	90	$ 844,118	$ 132,138	$ 79,193	$ 14,376
Customer Care	37	$ 206,905	$ 172,824	$ 15,266	$ 13,013
HR, IT	30	$ 253,096	$ 161,070	$ 31,526	$ 18,026
Community Relations, Sales & Marketing	31	$ 191,035	$ 80,785	$ 19,283	$ 8,143
Procurement, Rates, Supply	22	$ 150,226	$ 123,348	$ 14,615	$ 11,349
Business Process Improvement, Project Team, Safety, Training	24	$ 273,657	$ 173,118	$ 25,142	$ 17,353
Total	414	$ 3,968,377	$ 1,728,359	$ 329,270	$ 151,895
Benefit Gross-up (12%)		$ 4,444,582	$ 1,935,762	$ 368,782	$ 170,123

Q. Can you please provide an explanation and summary detail of the *bonus incentive* compensation adjustments for certain roles?

A. Yes, in addition to the base salary review, WTW performed a market analysis on the Company's target bonus incentive compensation levels. In this regard, WTW compared the Company's bonus incentive plan and plan levels to industry market data by position and identified several areas where the Company's bonus incentive compensation was behind market for bonus incentive compensation. WTW considers target bonus percent levels to be competitive if they fall within plus or minus 5 percentage points from market levels; thus, the identified and included adjustments relate to those positions falling outside of that range. Accordingly, in addition to base salary adjustments, the Company plans to increase the target bonus incentive for two of the Company's grade levels. One grade level is currently 7.5% and will move to 10% (impacting 96 employees), and the second grade level is currently at 10% and will move to 15% (impacting 30 employees). The total annualized salary and wage adjustment related to these base compensation benchmarking adjustments is $0.585 million, inclusive of related benefit costs of 12%. Of this amount, $0.291 million will impact operating expense. As such, Schedule D-9 for the FPFTY incorporates an adjustment for the operating expense impact of this unbudgeted adjustment of $0.291 million. Overall, these changes align employee efforts with industry market levels and serve to provide safe and reliable service to the Company's customers, support high levels of customer service, and contribute to workforce recruitment and retention.

Q. Please describe the timing for the compensation benchmarking adjustments that the Company is making in this case.

A. The analysis was completed by WTW and presented to the Company in November 2024. UGI Gas continues to perform an ongoing review of the analysis results, given that the results are detailed at the individual level for factors such as time-in-grade and internal equity among positions and may be subsequently subject to various refinement. Base salary increases have begun where finalization is complete with the remaining adjustments expected to be completed by September 2025. Bonus incentive compensation adjustments are being finalized, and communication of these changes is scheduled to be complete by March 2025.

Q. In addition to the salary and wage increases discussed above, is the Company's claim in this case subject to further updates related to compensation, in particular as related to upcoming collective bargaining contracts that will expire during the FTY?

A. Yes, UGI Gas has begun negotiations on the Company's largest union contract, with ratification expected to be finalized in March 2025. While the Company has included a budget estimate for this increase in labor costs in the FTY, once the contract is finalized, the budgeted increase will be updated to reflect the actual contract value as part of the Company's rebuttal testimony along with appropriate annualization of the impact related to the FPFTY.

V. CYBERSECURITY AUDIT ADJUSTMENT

Q. Please describe the biennial cybersecurity audit adjustment in Schedule D-12 of UGI Gas Exhibit A – Fully Projected.

A. As part of UGI's comprehensive approach to cybersecurity, it is moving forward to adopt a biennial cybersecurity audit. Such an audit is currently an industry best practice and is now a requirement for Maryland utilities, including UGI Gas. The estimated cost of this biennial audit is $250,000; as such, Schedule D-12 of UGI Gas Exhibit A – Fully Projected includes an adjustment of $125,000 to reflect the annualized cost impact of this new cybersecurity best practice.

VI. COMPETITIVE CUSTOMER ANALYSIS

Q. In the 2019 Base Rate Case settlement, the Company agreed to prepare a competitive alternative analysis for each interruptible customer with alternate fuel capability, starting in 2020 with updates every five years; has the Company prepared such an analysis consistent with the next five-year update?

A. Yes, it has. In accordance with Paragraph 73 of the 2019 Base Rate Case settlement, the competitive alternative analysis includes 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 competitive analysis for each customer also includes a listing of actual interruptions with dates and duration. As the analysis contains highly confidential customer information, the Company will make it available to the statutory advocates during the discovery process in accordance with and subject to the provisions of a stipulated protective agreement or protective order.

VII. MANAGEMENT EFFECTIVENESS AND PERFORMANCE

Q. What actions has UGI Gas taken that reflect superior management performance?

A. UGI Gas has focused on a number of areas to enhance and improve the quality and effectiveness of its service in recent years that reflect superior management performance. These management efforts include: (A) investments in safety; (B) infrastructure improvements made pursuant to the Company's LTIIP; (C) excellent customer service; (D) low-income assistance through the Company's Universal Service programs; (E) community engagement; (F) IT modernization; (G) environmental initiatives; (H) diversity and inclusion; (I) research and development; and (J) cost optimization.

A. Investments in Safety

Q. Please describe the Company's investments in Safety Culture Development and Training.

A. The Company's standardized approach to training and safety culture, in particular, its development of a comprehensive and centralized training center ("Learning Center") and creation of a safety and health management system, ensures that all Company employees share common values regarding safety and are trained in a consistent manner throughout the Company's service territory. UGI Gas maintains a culture that drives employees to perform their day-to-day responsibilities with a high degree of safety. In September 2021, the Company implemented a robust telematics and in-cab driver coaching system for all drivers of Company vehicles and provides supervisory coaching of events triggered by the system, along with positive recognition of safe defensive driving maneuvers. In FY2023, UGI Gas also incorporated the American Petroleum Institute ("API") Recommended Practice 1173, as a focus to improve pipeline safety and integrity. Additionally, in FY2025, the Company is introducing a focus on High Energy Hazard Assessment and Energy Control. These programs are discussed in further detail in the Direct Testimony of Christopher R. Brown (UGI Gas Statement No. 9).

The Company also has several ongoing safety initiatives. UGI's "Making a Difference by Living Our Values" Incentive Program rewards employees who demonstrate positive safety behaviors. Additionally, UGI Gas has implemented a "Near Miss/Good Catch" program, which seeks to proactively prevent safety incidents by learning from issues that had the potential for, but did not result in, damage or harm. Vendor safety is monitored through ISNetworld, which is vendor safety software to qualify contractors and monitor their performance trends. This data is compared against the Company's safety standards to ensure the contractors are qualified to perform work for the Company. All of these programs ensure UGI Gas is providing safe, reliable service to the communities it serves. In fact, in FY2024, the Company achieved its best ever Occupational Safety and Health Administration ("OSHA") Recordable Incident Rate ("RIR").

B. Infrastructure Improvements

Q. What infrastructure improvements has the Company achieved?

A. As further explained in the testimony of Christoper R. Brown (UGI Gas Statement No. 9), UGI Gas has an accelerated infrastructure replacement plan focused on replacing all remaining cast-iron and bare steel mains. UGI Gas is a leader in the Commonwealth, with the highest percentage of contemporary mains among major NGDCs at almost 90%. The Company projects that it will eliminate all cast-iron mains by 2027 and all bare steel mains by 2041. The Company's infrastructure improvement statistics, exemplified by the reduction of leaks and cast iron breaks discussed in Mr. Brown's testimony, is a direct result of this accelerated infrastructure replacement plan. During the five-year term of its Second LTIIP (2020-2024), UGI Gas invested approximately $1.3 billion in infrastructure improvements, building off an already-successful LTIIP that has realized material reductions to the number of hazardous and non-hazardous leaks. Additionally, on August 16, 2024, the Company filed its Third LTIIP (2025 – 2029), with anticipated spending of an additional $1.7 billion on infrastructure improvements. This Third LTIIP will see UGI Gas complete its cast iron replacement, advance bare steel replacements, and incorporate the replacement of certain priority plastic pipe. The Commission entered an Order approving the Third LTIIP on December 5, 2024, at Docket No. P-2024-3050769.

C. Excellent Customer Service

Q. Please describe the Company's achievements in providing superior customer service.

A. Providing superior customer service is a core value that UGI Gas continually seeks to achieve. Notably, the Company has been recognized by Escalent, a top data analytics and advisory firm with extensive energy, utility and brand experience, as a 2024 Customer Champion for continuing to build engaged customer relationships. The distinction is part of Escalent's Cogent Syndicated Utility Trusted Brand & Customer Engagement™: Residential study, which tracks the performance of 142 utilities and is published twice a year. According to the report, Customer Champions outperform the industry average in several attributes, including building goodwill within their local communities, effectively communicating with customers about system improvements, and offering effective programs including energy savings. These attributes exemplify the Company's superior customer service.

The Company also routinely measures customer satisfaction through several different surveys throughout the year, including: (1) transactional surveys after interactions with customer service representatives; (2) pulse surveys at various points during the customer onboarding process; and (3) opportunities to provide feedback on the Company's public-facing and authenticated web pages. The Company uses feedback from these surveys to identify and address opportunities to improve customer experience.

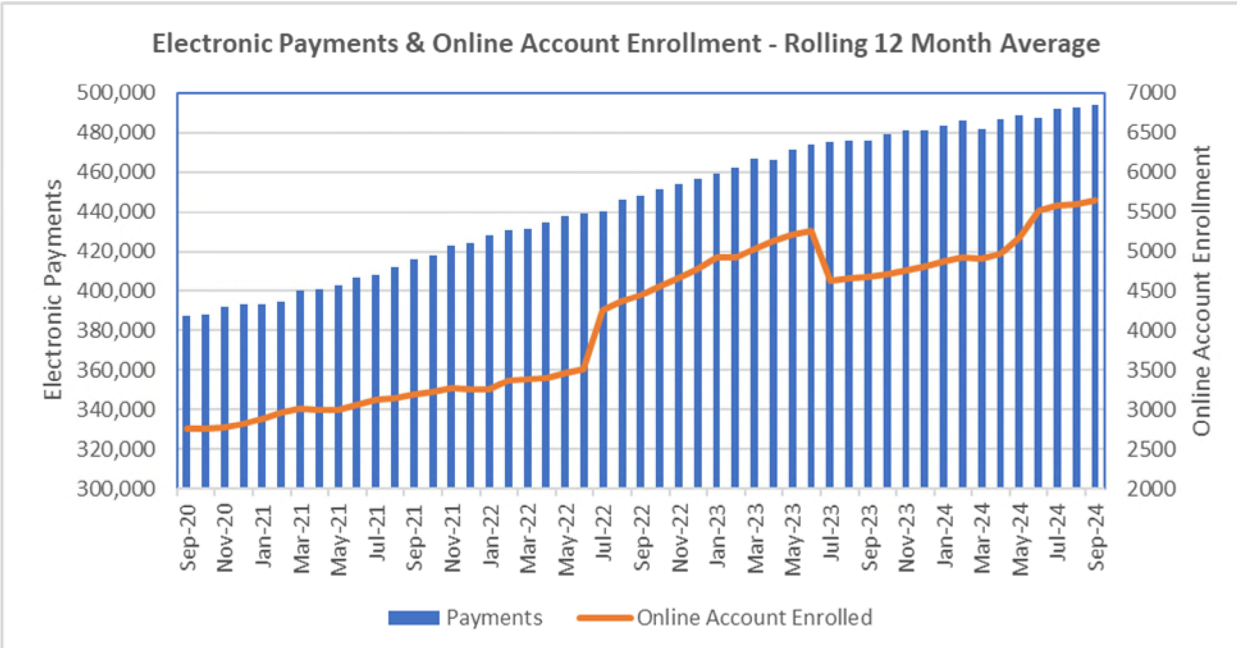
For example, numerous initiatives were put in place to improve first-call resolution and reduce wait times for customers calling the Company's call center to speak to a customer service representative. In February of 2023, the Company partnered with an additional third-party to support move-in, move-out and change of customer calls. This contractor began assisting with customer calls in May of 2023, and along with an additional third-party partnership that has been in place since 2017, the Company has been able to leverage this support as needed to better manage and diversify staffing requirements across multiple sources.

The Company also remains focused on our recruitment, on-boarding, and retention of high-quality Customer Care Representatives ("CCRs"). In 2022 and 2023, market studies and rate adjustments were implemented, which resulted in an average increase of $1.85/hour for the Company's CCRs. Beginning in 2023, an incentive plan was rolled out for CCRs to encourage exemplary performance. CCRs continue to receive regular, on-going support from our Call Center supervisory team, as well as the Company's Training and Quality Assurance departments. The Company provides frequent opportunities for refresher training, and all CCRs participate in a continuous training program that allows them to build on their skills and learn new skillsets. As a result of these efforts, the Company has seen a decreased CCR turnover rate. For FY2023, the total CCR turnover rate was 38%; by the end of FY2024, the CCR turnover rate dropped to 29%. Additionally, scores on 'ease of reaching a representative' on a post-call transactional survey improved nearly one point, up from 7.8 to 8.6 out of 10, over the same fiscal years. Similarly, the percentage of customers stating their service-related issues were resolved in one call increased from 45% in FY2023 to 58% in FY2024. These efforts have also resulted in a significant improvement with UGI's Grade of Service ("GOS"), which is the percentage of calls answered in under 30 seconds. The marked improvement resulted in year over year improvements from a GOS of 73% in FY2022 to 80% in FY2023 and 83% in FY24. These metrics demonstrate the results of the Company's efforts to focus on continuing to improve and deliver exceptional customer service.

Additionally, customers who self-serve via the Online Account Center are significantly more satisfied because of the Company's new and improved Online Account Center, which launched in December 2023 and improved the functionality and usability of the Company's customer payment portal. Hundreds of customers have taken the time to share their comments on how easy the site is to use and shared their appreciation for UGI's dedication to making the experience easier. As a result, customer satisfaction scores for the Online Account Center significantly improved in FY2024, resulting in an almost 2-point increase in satisfaction scores; moving from a 6.5 in Q1 to an 8.4 in Q4 where on a scale of 1 – 10, 1 is very dissatisfied and 10 is very satisfied.

As of November 8, 2024, there are 419,153 registered profiles in the UGI Online Account Center, and 343,448 accounts are receiving paperless bills. Over the last five years, as shown in Table 4, both the average number of monthly electronic payments received and the average number of newly registered online accounts have increased significantly. On average, monthly electronic payments have increased by over 100,000 per month, recently passing the 500,000 milestone, which accounts for 76% of all payments received. Additionally, the monthly average number of newly registered online accounts is around 5,500, doubling the figures we saw in late 2020.

Table 4 – Electronic Payments & Online Account Enrollment – September 2020 – September 2024



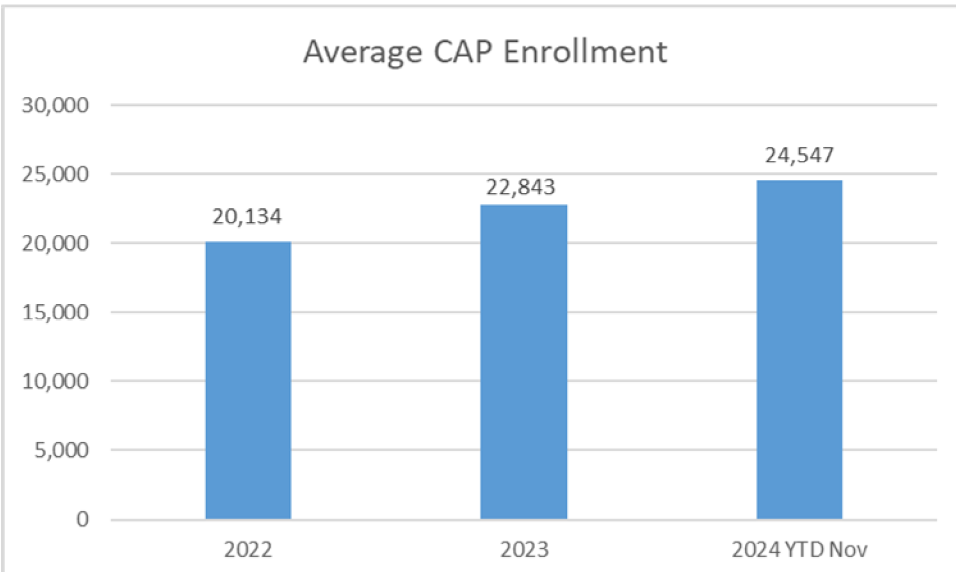
D. Universal Service Programs

Q. Please describe the Company's achievements with its Universal Service Programs.

A. UGI's Universal Service Programs have shown steady growth over the last few years. In particular, the LIURP budgets have been effectively spent, as UGI has worked closely with its weatherization Contractors and Community Based Organizations ("CBOs"). As illustrated in Table 5, Customer Assistance Program ("CAP") enrollments have continued to see a steady upward trend due to UGI's continued marketing efforts that include twice a year outreach (email, direct mail) to customers who are self-reported low income and to LIHEAP recipients that are not currently enrolled in CAP. In addition, the Company recently completed an initiative to assess and engage potential low-income customers to encourage enrollment in the Company's CAP, resulting in over 500 customer enrollments. The Company also began participating in the Pennsylvania Department of Human Services

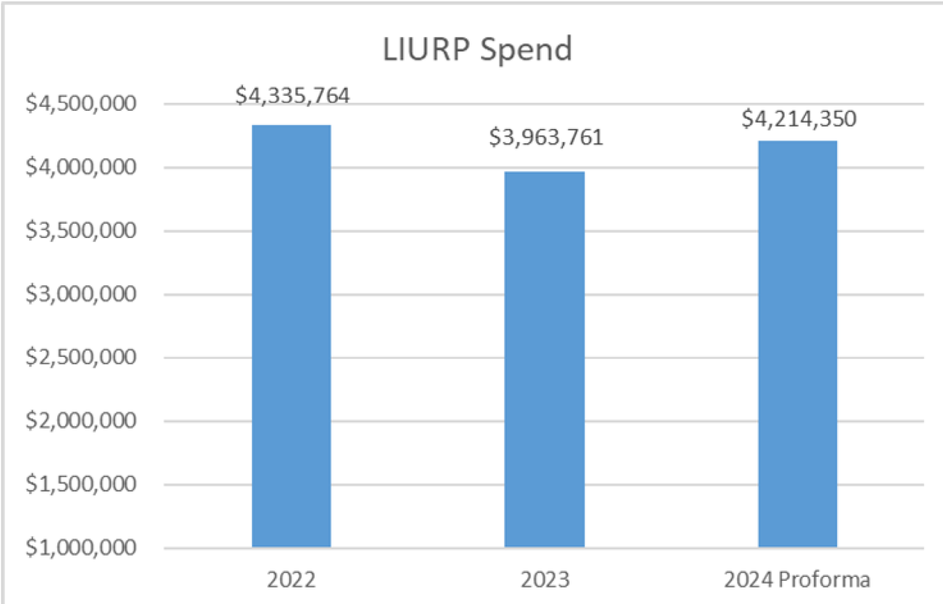
("DHS") LIHEAP data sharing initiative in October 2024 and is working to actively promote the availability of CAP to those customers who received LIHEAP that the Company was not aware of due to customers applying for LIHEAP through their other utility providers.

Table 5 – Average CAP Enrollment (2022 – 2024)



For LIHEAP, the Company successfully facilitated the processing of nearly 26,000 grants for $10.1 million during the 2023-2024 season. Additionally, UGI Gas customers benefitted from over 2,300 Operation Share grants accounting for over $850,000 in assistance during Fiscal Year 2024. The Company's annual LIURP spending from 2022 – 2024 is shown in Table 6. The Company continues to maximize spend in relation to Universal Services Energy Conservation Plan approved budgets.

Table 6 – Annual LIURP Spending (2022 – 2024)



The Company expects participation in its Universal Service Program to continue to grow as marketing efforts continue through various channels, including email, social media, direct mail, and SMS texts for customers who opted in to receive text messages. The Company's Customer Outreach Team also hosts Winter Assistance Relief Mobilization ("WARM") events at its partner CBOs to assist customers on a one-on-one basis and provide enrollment in programs that benefit customers.

E. Community Engagement

Q. Please describe the Company's community engagement efforts.

A. Each year, UGI invests more than $1.0 million, through the Department of Community and Economic Development's Education Improvement Tax Credit Program, to support 90+ education improvement programs across the Company's service territory. UGI's community efforts are focused in four key areas: Improving Literacy, Inspiring Future STEM Professionals, Building Future Leaders, and Supporting Safe and Sustainable

Communities. By focusing on these four areas, UGI can make a concentrated, impactful investment today for the next generation and future potential workforce.

UGI has been partnering with the national nonprofit, Reading is Fundamental, to support early literacy efforts for 33 years. Literacy skills are a critical foundation for success in school and life, and UGI is dedicated to improving literacy and providing greater access to books to students across the Company's service territory. During the 2023-2024 school year, 28,000 books were distributed to 12,600 first-grade students in 71 schools. In celebration of National Reading Month, three randomly selected schools also won STEM book collections, containing 100 books each to be used in their classrooms or distributed to students.

UGI also began initial work with The Energy Innovation Center Institute ("EICI"), an independent 501(c)(3) organization whose mission is to help solve the world's most intractable problems by transforming how humans learn and work in more sustainable and resilient ways. EICI is the program arm of the Energy Innovation Center, and its charter places preeminence on helping those in the most vulnerable populations throughout the Appalachian Region. EICI seeks to break cycles of poverty by connecting the stranded talent in regional disadvantaged communities to the highroad jobs around them and to which they are often excluded.

As an energy provider, UGI relies on professionals with STEM skills to deliver safe and reliable energy to our customers. It is vitally important for UGI to continue pursuing innovation and ensure there are talented people to drive this innovation. During the 2023-2024 school year, UGI partnered with Science Explorers and the S.P.A.R.K.S. Foundation to deliver hands-on science experiments and demonstrations to 3,318 elementary students in 27 schools across the Company's service territory.

The foundation of a strong community rests on people having stable access to affordable housing, food, and safe and healthy environments. One of UGI's main partnerships to support safe and sustainable communities is with the American Red Cross. UGI is proud to support the "Sound the Alarm" Campaign, which has saved more than 2,063 lives and installed over 2.7 million smoke alarms nationwide. In 2023, UGI's support helped install 9,335 smoke detectors across the Company's service territory through the Sound the Alarm Campaign. In addition, UGI distributed donations totaling $10,000 to volunteer fire departments and another $10,000 in donations to food banks in 2024.

Furthermore, UGI's employees are eligible for 16 paid hours of volunteer time per year per the Company's volunteer policy. As of November 2024, year to date, employees logged just over 2,600 volunteer hours participating in Company-organized volunteer initiatives. In the annual community relations survey, nearly 700 UGI employees self-reported over 42,000 hours of volunteer service. UGI employees also donated personal funds to support and improve their communities. More than 1,000 employees contributed a total of more than $320,000 to 170 community organizations as part of the Company's 2024 UGIVE Employee Giving campaign. Combined with corporate contributions, scheduled for payment in January 2025, and retiree contributions, total support provided to United Way agencies serving communities in the UGI service territory in 2024 will total more than $512,000.

F. Information Technology Modernization

Q. Please describe the Company's efforts at modernizing processes and Information Technology.

A. The Company is building on its past focus on distribution system modernization by taking advantage of newer technologies, equipping employees for future success, and improving organizational communication. The centerpiece of the Company's IT modernization is UNITE, a multi-phased series of projects to identify and address business and technology opportunities for improvement. The Company has completed multiple UNITE phases to date and is presently engaged in a current-state analysis review of the Company's asset management processes. This effort will modernize and harmonize the Company's IT systems.

Q. Please explain the improvements that the Company has made as part of UNITE.

A. Through the UNITE program, the Company has made significant technology improvements. In 2017, the Company replaced its Customer Information System. Since then, the Company continually has enhanced this solution to gain operational efficiencies and deployed a Customer Portal to further enhanced customer experience.

In 2019, the Company replaced its Enterprise Resource Planning ("ERP") solution and its fixed asset accounting solution and introduced a contractor billing solution. Since then, internal controls were enhanced through the increased use of electronic purchase orders (about 74% of all purchases in fiscal 2024) as well as automated wire payments, approval routings, and user access provisioning. Over 67% of purchase orders correspond to contractor activities invoiced via the contractor billing solution, with workflow to ensure only Company validated invoices matching a purchase order and within the project budget are automatically processed for payment. Lastly, the Company's use of electronic fund transfer methods (i.e., ACH, wire, or direct debit) reached 98% in Fiscal Year 2024.

In 2020, the Company deployed a Capital Budgeting and Forecasting solution integrated with the Company's ERP and with the Fixed Asset and Tax solutions. This solution embedded lifecycle governance for approving and monitoring capital projects, improved visibility of capital expenditure requests and authorized capital projects, detailed forecasting for more accurate tracking of ongoing capital projects, and improved data analytics for making timely and optimal capital decisions.

In 2023, UGI deployed the Asset Data Collection ("ADC") solution, which focuses on the identification and standardized capture of asset data information across UGI. Through this solution, the Company deployed to field personnel more effective, user-friendly tools to vie and to collect data on assets, such as as-built sketches. This enhanced mobile functionality results in a more accurate and complete capture, track, and trace of asset data.

Q. Please describe the UNITE current state analysis of the Company's asset management processes.

A. In 2024, the Company moved forward with initial work on a field service management ("FSM") project focused on replacing the current outdated field software system solution and supporting an advanced planning, scheduling, and dispatch of field work via mobile field interface that will integrate directly with the Company's existing UNITE programs. The FSM program is described further in the direct testimony of Vicky A. Schappell (UGI Gas Statement No. 5).

Q. What processes are being evaluated in the next UNITE projects?

A. In the next phases of the UNITE program, the Company will focus on several projects to support various aspects of enterprise asset management ("EAM"). Specific to the gas utility operations, the processes in scope of this current state analysis include: (1) main replacement, distribution system reinforcement, and line extension projects; (2) service installations; (3) new and upgraded regulator stations; (4) inspections, maintenance, and other repairs; (5) paving and restoration; and (6) facility location and damage prevention.

Q. What will be the focus of the UNITE EAM initiative in the FPFTY?

A. The Company has begun work targeting the Field Service Mobility portion of EAM with a goal of placing that program in service in July 2026. The EAM program is described further in the direct testimony of Vicky A. Schappell (UGI Gas Statement No. 5).

G. Environmental Initiatives

Q. Please describe the Company's engagement on environmental initiatives.

A. The Company, as well as its parent UGI Corp., are committed to environmental stewardship. The Company worked with UGI Corp. to publish its sixth annual Sustainability Report for FY2023, which – among other initiatives – tracks progress against a number of goals associated with emissions reductions, the development of renewable energy sources, spend commitments associated with diverse suppliers, safety priorities, and the governance of the Company's programs.

Q. What actions has UGI Gas taken to address environmental stewardship?

A. Since 1995, the Company has successfully converted almost 128,000 households, mostly from fuel oil to more environmentally-friendly natural gas. UGI Gas also encourages energy efficiency through its voluntary Energy Efficiency and Conservation ("EE&C") programs. Dating back to inception, the EE&C programs have also worked to reduce both customer natural gas and electric consumption by over 1.3 million Mcf and 24,108 MWh, respectively. With regard to large industrial customers, UGI Gas supplies natural gas to facilities that, in part, have enabled the Commonwealth to substantially lessen its reliance on electric generation produced by more carbon-intensive fuels, such as coal and oil. Additionally, UGI Gas maintains an environmental permitting program that operates to ensure that gas main and other construction projects are properly designed, permitted, and constructed to mitigate potential erosion and discharge of sediments to watersheds. UGI Gas also manages a program under a Consent Order and Agreement ("COA") with the Pennsylvania Department of Environmental Protection ("PADEP") to actively investigate and remediate potential impacts to the public or the environment associated with the historic operation of manufactured gas plant ("MGP") sites. Finally, UGI Gas is actively implementing options that reduce its carbon footprint, including the continuation of a program that incorporates RNG into its distribution system and gas supply portfolio, and the introduction of equipment at regulator stations that lowers or eliminates emissions associated with control valves and odorization infrastructure. During FY2024 and FY2025, the Company also initiated a significant advanced mobile leak detection ("AMLD") pilot program that surveyed nearly 100 miles of mains and associated distribution system infrastructure. AMLD expansion is further discussed in the direct testimony of Christopher R. Brown (UGI Gas Statement No. 9), along with quantification of related cost adjustments.

Q. What efforts has UGI Gas made toward sustainability?

A. UGI Gas continues to increase its focus on sustainability as it pertains to the natural gas industry. To support the expansion of sustainability overall, the Company maintains its memberships with the American Biogas Council, a national natural gas trade organization that represents the entire U.S. biogas industry and focuses on maximizing the production and use of biogas from organic waste; and the NextGenGas Coalition, a collaborative effort to facilitate external engagement and educational opportunities to accelerate the successful advancement of the NextGenGas marketplace. Additionally, UGI Gas recognizes that a more fuel-efficient fleet can contribute to sustainable operations and currently has 216 compressed natural gas ("CNG") fueled vehicles as part of its fleet, with plans to add approximately 45 to 50 more and a CNG fueling station in Middletown by the end of the FPFTY. These fleet CNG conversions provide significant reductions in carbon emissions. The Company's cast iron and bare steel replacement activities also have resulted in lowering methane emissions. Based on the pace of replacement projects, it is forecasted that the replacement and betterment programs will be completed in advance of the 2027 and 2041 targets for cast iron and bare steel, respectively. Additionally, in November 2022, UGI assembled a cross-functional Methane Emissions Tracking Committee ("METC") that brought together Company subject matter experts from Engineering, Operations, Pipeline Safety Management, Safety, Metering & Regulation, Capital Construction, Standards, and Sustainability to identify all first party (i.e., scope 1) carbon emissions and define process for procuring data and estimating the volume of greenhouse gases associated with the recognized sources. The METC project was completed near the end of calendar year 2023 and culminated in the publication of an internal Company recommendations report that identified the following opportunities:

- Further investigation of AMLD technology as it relates to UGI Gas's distribution system.
- Establishment of a formal evaluation program for both novel and traditional emissions quantification and mitigation technologies.
- Retention of the largest-volume scope 1 emission sources to explore for mitigation opportunities.
- Development of a unified compliance strategy for rulemakings focused on emissions accounting and reporting.

The Company plans to continue to enhance and expand its initiatives aimed at lowering methane and greenhouse gas emissions through the development of a new cross-functional team formulated in the first quarter of 2024 – the Sustainability and Innovation ("S&I") Team.

Q. Please detail the Company's efforts to comply with the United States Environmental Protection Agency's ("EPA") Subpart W/Greenhouse Gas Reporting Program ("GHGRP") regulations.

A. UGI Gas submits timely regulatory filings by March 31 for the prior calendar year to comply with EPA's Subpart W/GHGRP requirements for the distribution industry segment. These filings contain information on scope 1 fugitive emissions associated with Company mains, services, and regulator stations. UGI Gas also performs leak surveys using optical gas imaging ("OGI") technology at approximately 20% of the roughly 200 regulator stations that are classified as above ground Transmission-Distribution ("T-D") Transfer Stations under the EPA rule. In April 2024, EPA published an amended final rule that will largely go into effect in calendar year 2025. UGI Gas has been taking steps to prepare for the regulations' implementation, which include new source reporting requirements, and requirements to quantify emissions during leak surveys or develop facility-specific emission factors. UGI Gas's efforts in this regard are further discussed in the direct testimony of Christopher R. Brown (UGI Gas Statement No. 9).

H. Diversity and Inclusion

Q. What actions has UGI Gas taken to address diversity and inclusion?

A. UGI Gas is committed to fostering a more diverse and inclusive work environment, which will provide a stronger and more cohesive workforce that ultimately provides improved service to our customers. As part of this focus, UGI has implemented a Belonging, Inclusion, Diversity and Equity ("BIDE") initiative. BIDE was formed in 2020 to enhance and expand UGI Gas's efforts to be "part of the solution" in addressing systemic bias and injustice in the communities in which it operates. Utilizing the Company's values – safety, integrity, respect, responsibility, reliability, accountability, and excellence – UGI Gas has implemented steps to model inclusive leadership and provide a culture in which employees feel a sense of belonging. To effectively implement the objectives of BIDE, UGI Gas has created a council that includes senior leadership dedicated to increasing inclusivity and diversity in four core pillars of the business: Culture, Career, Community, and Commerce. The BIDE Council's mission is to cultivate an inclusive and equitable workplace where employees feel a profound sense of belonging, promoting equity and diversity as fundamental principles that enhance the Company's business success and community impact to attract, retain, and develop a more diverse team at UGI Gas.

Q. What resources has the BIDE initiative provided to UGI employees?

A. As part of its focus on creating a culture of inclusion, UGI's BIDE Council has developed three employee resource groups: Black Organizational Leadership and Development ("BOLD"), Women's Impact Network ("WIN"), and the Veteran Employee Team ("VET"). BOLD focusses on inclusion, equity, education, and empowerment for black employees and will assist leadership with communication, talent recruitment and retention, and promotion for black employees. BOLD drives professional development through mentoring and sponsorship opportunities, increasing exposure through networking and career development events. It also promotes cultural transformation by influencing Company policies and procedures that can improve an employee's experience at UGI, as well as the impact these policies and procedures have on customers and partners. WIN fosters an environment for women to be recruited, retained, developed, and advanced as leaders within the UGI Family of Companies. Membership in WIN offers exposure to various professional development opportunities, including speaker series events, group engagement activities, virtual group discussions, and partnerships with local organizations. VET recruits and retains veterans and fosters goodwill towards veterans. Members include Active Duty, Reserve, and National Guard veterans of the Army, Navy, Marines, Coast Guard, and Air Force, their families, and partners committed to supporting military veteran employees. These three groups provide support, mentorship, educational opportunities, advocacy, and events to increase awareness and involvement and to grow the culture of inclusion at UGI Gas. New for 2025, within the context of BIDE, is the creation of a group-wide Employee Engagement Committee and a Partnership Committee. The Employee Engagement Committee's purpose is to: (1) plan and coordinate group wide employee engagement initiatives/themes across UGI Gas; (2) ensure alignment and coordination of all local employee engagement activities; and (3) share ideas and best practices across UGI Gas. The Partnership Committee's purpose is to: (1) develop a Charitable Giving Policy that aligns with the Company's mission and core values; (2) create UGI Charitable Giving Guidelines including the operational process, procedures, and ownership responsibilities; (3) provide ongoing support to UGI charitable initiatives to maximize community benefits and business impacts; and (4) periodically assess partnership relationships to assure alignment with policy objectives and guidelines.

Q. What additional actions has UGI Gas taken as part of its BIDE initiative?

A. In addition to employee resource groups, UGI Gas has continued to refine its efforts to hire and retain diverse employees, including more senior level positions. This effort includes consideration of a diverse slate of candidates for all director level or higher roles. BIDE has also incorporated UGI's long-time focus on developing relationships with diverse suppliers and vendors. The Company has continued its efforts to contract with Minority, Women and Disabled Owned Businesses ("Diversity Spend"). Historically, UGI has acquired diverse supply partners through various methods. The Company has implemented employee education and training, utilized the support of relevant database tools, incorporated diverse vendors into its requests for proposals ("RFP"), and provided guidance on entering into agreements with diverse outfits.

Since the launch of the Procurement Supplier Diversity Program in 2021, Procurement has exceeded annual goals aimed at increasing the inclusion of diverse vendors. An initial Company goal was established to increase spend with diverse vendors by 25% by 2025. This goal was accomplished by September 2023, with UGI Gas's total spend on diverse vendors exceeding $175 million since the launch of the program in 2021.

In 2024, UGI Gas's total supplier diversity spend exceeded $57 million. UGI is also a proud sponsor of the National Minority Supplier Development Council ("NMSDC"), providing access to a network of certified minority business enterprises and demonstrating the Company's commitment to economic equity.

I. Research and Development

Q. Please describe the Company's research and development plans.

A. UGI Gas will begin work with the Gas Technology Institute's Operations Technology Development ("OTD") program starting in the FTY. OTD allows utilities to combine interests, expertise and resources into focused R&D projects. OTD's research projects focus on improving the safety, reliability, and operational efficiency of natural gas projects. This program will support access to best practices related to key areas of research information and support investments in ongoing areas of focus which are of material interest to UGI Gas in support of the ongoing efficient maintenance and operation of a safe and reliable distribution network. In addition, it will support research for newer or emerging gas technologies. These programs will benefit the Company's customers by enhancing efficient operational and equipment standards to support safe, reliable delivery of natural gas.

J. Cost Optimization

Q. Please describe the cost optimization program which the Company recently implemented.

A. During Fiscal 2024, the Company planned and implemented a program designed to optimize operational processes, reduce costs, and improve cash flow currently and into the future. The program included re-thinking the Company's organizational structure and processes, considering optimization for current and future efficiency. In connection with this program, the Company identified approximately $13,500,000 of annualized cost savings, which benefit Fiscal Year 2024 and future years.

Q. What was the nature of the savings identified under this program?

A. The savings identified under this program included personnel savings (including elimination of open positions); incremental capitalization of certain costs (most significantly insurance premiums); and savings from reductions within the following areas: (1) professional fees; (2) third party administrative support; (3) sponsorships and memberships; (4) IT software and hardware; (5) telephone services; (6) customer program notifications; (7) office supplies, travel costs, and activities; (8) training; (9) materials; (10) donations; (11) publications; (12) building maintenance and landscaping; and (13) marketing.

Q. Did UGI Corp. participate in the cost optimization program?

A. Yes. UGI Corp. identified personnel and non-personnel savings in the areas of Finance, Human Resources, IT, Legal and Procurement. Of these savings, approximately $2,800,000 of annualized savings funneled to UGI Gas through the cost allocation process.

Q. How much did the Company incur to implement this savings program?

A. During Fiscal Year 2024, UGI Gas incurred approximately $2,800,000 of one-time costs to implement this savings program. These costs are included in the HTY results but are not part of the claim in this rate case.

Q. How did the cost optimization program benefit the Company's ratepayers?

A. Ratepayers benefit from cost savings through lower impacts to rates, all else being equal. Ratepayers will continue to benefit from a more optimized cost structure and process efficiencies that were introduced as a part of this program.

Q. What do the Company's efforts in the above-referenced areas demonstrate?

A. UGI Gas believes that the management efforts described above, and the other improvements described by the UGI Gas witnesses in this proceeding, as well as the Company's provision of safe and reliable service at reasonable rates, demonstrate UGI Gas's commitment to safety, community partnership, and the provision of excellent customer service. In total, these efforts support an additional upward adjustment of 0.20% to the Company's equity return in recognition of its management effectiveness, which is included in the 11.2% equity return requested in this proceeding.

Q. Does this conclude your direct testimony?

A. Yes, it does.

UGI GAS

EXHIBIT HGB-1

Hans G. Bell

Summary

Proven Energy Utility Executive with 29 years of gas & electric utility leadership experience including P/L accountability, transmission and distribution operations, engineering, asset integrity management, rate case / regulatory strategy, capital program management, customer service, and business development.

Experience

UGI Utilities, Inc., Denver, Pennsylvania

Utility President accountable for all aspects of business performance to ensure safe, reliable, and cost-effective natural gas & electric service for a utility serving more than 700,000 customers. Over a 12-year tenure at UGI Utilities, led the establishment of long-term infrastructure investment programs, led a 4-fold ramp up in capital investment to achieve infrastructure replacement objectives, developed internal & external capabilities and resources to execute the program, and guided the strategies needed to achieve return on investment. Consistently led team to deliver on key metrics including safety, reliability, customer service, and financial objectives.

President, UGI Utilities, Inc. *2020-present*

- Accountable for accountable for delivering overall business performance to ensure safe, reliable, and cost-effective natural gas and electric utility service
- Provides executive leadership for organization comprised of ~1,700 personnel including executives, technical professionals, and line workers engaged in gas & electric operations, engineering, financial management, rates, gas supply, environmental health & safety, capital program management, construction, and IT system implementation
- Delivers presentations to Board of Directors to secure approval of long-term strategy, annual plan, and major investments
- Maintains relationships among regulators, elected officials, customers, and trade allies
- Presents Utility segment business updates at investor conferences and meetings with shareowners

Chief Operating Officer *2017-2020*

- Consistently delivered upon increasing annual infrastructure replacement plans – on-time and on budget pipeline replacement program for 6 consecutive years
- Developed & implemented sustainability strategies into the business, including establishing methane emission reductions and integration of renewables and energy efficient technologies
- Implemented a safety culture enhancement program and initiated a Pipeline Safety Management System implementation plan
- Led delivery of a $70M pipeline of 10 miles x 24" pipeline, to serve major power plant, now UGI's single largest customer
- Primary author of the UGI Long-Term Infrastructure Improvement Plan – a 5-year investment plan and strategy encompassing more than $1.25 Billion of safety & reliability improvements
- Achieved safety & reliability improvements including 27% reduction in hazardous leaks, 75% reduction in leaks scheduled for repair, 36% reduction in cast iron main break frequency, and consistent performance in excavation damage prevention

Vice President, Engineering and Operations Support *2013- 2017*

- Accountable for accelerated infrastructure replacement programs, capital budgeting contractor management, corrosion control, damage prevention, employee safety, engineering design, transmission & distribution integrity, regulatory compliance, training, and all related technical support functions.
- Accountable for planning and execution of annual cast iron / bare steel replacement program covering > 64 miles per year
- Primary author & regulatory witness for Long Term Infrastructure Improvement Plans, and annual asset optimization plans
- Primary witness providing written and verbal testimony to secure and increase the UGI Distribution System Improvement Charge which accelerated intra-rate case recovery of major safety & reliability investments
- Responsible for management and development of professional and technical support staff of over 110 employees
- Managed regulatory compliance activities with the PA Public Utilities Commission – Pipeline Safety Division

Nicor Gas, Naperville, Illinois

Over 17 years at Nicor Gas, a 2.1M customer gas utility, advanced through positions of increasing responsibility beginning at entry level through Managing Director of Engineering. During the AGL / Nicor merger served as functional lead for engineering & technical support on the merger integration team.

Managing Director, Engineering *2012-2013*

- Accountable for Engineering Design, Land Management, and System Planning supporting gas transmission, storage, and distribution operations spanning 11 states serving over 4.5 million customers
- Managed capital budgets of >$200M including budget development, variance reporting, and project prioritization
- Accountable for oversight of right of way acquisitions in advance of major pipeline projects
- Developed long term investment plans for infrastructure replacement, optimization, and growth

Assistant Vice President Engineering & Chief Engineer *2011- 2012*

- Accountable for all gas utility engineering support departments with over 50 professional and technical staff including Engineering Design, Transmission Integrity, Distribution Integrity, System Planning, Geographic Information Systems, Measurement, and Technical Services (Lab)
- Accountable for Transmission & Distribution Integrity Management compliance, audits, plans, program management, and project portfolio optimization.
- Accountable for Engineering Design and project management for distribution, storage, and transmission projects from initial scope, detailed design, cost estimates, sourcing, and contract negotiation
- Managed multiple interdisciplinary project teams executing complex multi-million-dollar storage and transmission projects
- Managed regulatory relationships with State (ICC) and Federal Pipeline Safety Agencies (PHMSA). Provided technical support to incident investigations
- Developed strategic approaches to addressing pipeline safety legislation including MAOP affirmation
- Developed engineering integration plans for AGL Resources– Nicor Gas merger including, organizational design, critical process mapping, accountabilities, budgeting, and staffing

General Manager System Integrity & Chief Engineer *2007 - 2011*

- Responsible for management of multiple departments including Engineering, Transmission Integrity, Distribution Integrity, System Planning, and Geographic Information Systems
- Responsible for development and management of infrastructure capital budgets of approximately $65 million
- Managed contracts with engineering consulting firms for pipeline design, construction, survey, and professional services
- Implemented a Distribution Geographic Information System including database design, data conversion of over 34,000 miles of distribution pipe, and deployment of a mobile GIS application to all front-line workers

Manager Engineering Design *2004- 2007*

- Responsible for managing departmental capital budget in excess of $20 million annually
- Provided project management oversight to pipeline projects from concept, feasibility, budgeting, approval, planning, design and implementation
- Maintained engineering consultant relationships and negotiated service contracts
- Implemented process improvements including development of Geographic Information System (GIS) based map distribution application
- Managed pipeline construction projects, negotiated construction contracts, resolved permitting issues, and delivered project approval presentations

Project Manager – Transmission Pipeline Integrity *2003 –2004*

- Responsible for development and implementation of pipeline integrity management program to maintain regulatory compliance with the Pipeline Safety Act of 2002
- Developed risk management program for prioritization of pipeline integrity assessments in high consequence areas
- Determined pipeline assessment project schedules including long term operating expense and capital budgets

Region Manager – Distribution *2001 – 2003*

- Manager responsible for construction and maintenance activities of gas distribution utility
- Managed projects involving main installations, service installations, and leak repairs
- Measured and tracked performance of 50 personnel against productivity and safety benchmarks
- Coordinated response to emergencies including gas leaks and pipeline breaks

Supervisor of Distribution Planning *2000 - 2001*

- Supervised staff of six engineers in distribution planning department
- Coordinated hydraulic modeling studies of 34,000-mile natural gas distribution system serving over 2 million customers
- Recommended capital improvement projects required to maintain uninterrupted reliable peak day service throughout entire natural gas distribution network
- Coordinated long range planning studies and forecasts used to develop capital budgets

Project Engineer *1996 –2000*

- Managed pipeline construction and maintenance projects, supervised inspectors and company maintenance crews
- Designed plans for installation and revision of gas distribution facilities
- Reviewed highway improvement plans and worked with state transportation engineers to resolve utility conflicts

Professional Activities & Affiliations

- Licensed Professional Engineer, State of Illinois, License # 62054443
- Director, Pennsylvania Chamber of Business & Industry 2023-present
- Director, Northeast Gas Association 2018- present (Chair 2025)
- Member, Society of Gas Operators – 2015 to present
- Member, Society of Gas Lighters – 2018 to present
- American Gas Association Bronze Award of Merit 2012
- Member, American Gas Association Leadership Council
- Chair, American Gas Association Distribution & Transmission Engineering Committee 2012 - 2013
- Co-chair of Southern Gas Association Distribution Engineering Committee 2007-2010

Education

Keller Graduate School of Management, Chicago, Illinois

Master of Business Administration*, Graduated with Distinction, 2000*
Concentration in Finance

University of Illinois, Champaign, Illinois

Bachelor of Science in Civil Engineering*, 1996*
Concentration in Construction Management

Wharton School, University of Pennsylvania, Philadelphia, Pennsylvania

Executive Development Program, 2017

Previous testimony before the Pennsylvania Public Utility Commission at Dockets:

P-2013-2398833 UGI Utilities, Inc. – Gas Division, Long Term Infrastructure Improvement Plan

P-2013-2398835 UGI Central Penn Gas Inc., Long Term Infrastructure Improvement Plan

P-2013-2397056 UGI Penn Natural Gas, Inc. Long Term Infrastructure Improvement Plan

R-2015-2518438 UGI Utilities, Inc. – Gas Division, Base Rate Case

R-2018-3006814 UGI Utilities, Inc. – Gas Division, Base Rate Case

UGI GAS STATEMENT NO. 2

TRACY A. HAZENSTAB

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Docket No. R-2024-3052716

UGI Gas Utilities, Inc. – Gas Division

Statement No. 2

Direct Testimony of
Tracy A. Hazenstab

Topics Addressed:	**Revenue Requirement** **Operating Revenues and Expenses** **Compliance with Act 40 of 2016**

Dated: January 27, 2025

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Tracy A. Hazenstab. My business address is 1 UGI Drive, Denver, Pennsylvania 17517.

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

A. I am employed by UGI Utilities, Inc. ("UGI") as Sr. Manager – Utility Rates. UGI is a wholly-owned subsidiary of UGI Corporation ("UGI Corp."). UGI has two operating divisions, the Electric Division ("UGI Electric") and the Gas Division ("UGI Gas" or the "Company"), each of which is a public utility regulated by the Pennsylvania Public Utility Commission ("Commission" or "PUC").

Q. What are your responsibilities as Sr. Manager - Utility Rates?

A. I am primarily responsible for various tariff filings and related computations for UGI Gas and UGI Electric rate and regulatory filings before federal and state regulatory commissions. As part of these responsibilities, I am responsible for preparing and supporting the Company's revenue requirement models for this base rate filing, which is included as UGI Gas Exhibit A. I report directly to the Chief Regulatory Officer of UGI.

Q. What is your educational background?

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

Q. Please describe your professional experience.

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

Q. Have you testified previously before this Commission?

A. Yes. Attached to my direct testimony is UGI Gas Exhibit TAH-1, which contains a list of proceedings in which I previously testified. Additional exhibits that I am sponsoring are described below.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. I am providing testimony on behalf of UGI Gas in support of the Company's proposed revenue requirement. First, I provide an overview of the Company's revenue requirement exhibits for the historic year ended September 30, 2024 ("HTY"), future year ending September 30, 2025 ("FTY") and the fully projected future test year ending September 30, 2026 ("FPFTY") (Section II). Second, I present UGI Gas's ratemaking presentation for the FPFTY, including its revenues and operating expenses claims, and certain pro forma adjustments (Section III). The Company's rate proposal in this case is predicated on its FPFTY exhibit, which demonstrates the need for a revenue increase of $110.395 million. I also address the Company's compliance with Act 40 of 2016 (Section IV).

Q. What exhibits are you sponsoring in this proceeding?

A. In addition to UGI Gas Exhibit TAH-1 mentioned above, I am sponsoring UGI Gas Exhibit A (Fully Projected), UGI Gas Exhibit A (Future), and UGI Gas Exhibit A (Historic). I am also sponsoring certain responses to the Commission's standard filing requirements, as indicated on the master list accompanying this filing.

II. OVERVIEW OF PRINCIPAL ACCOUNTING EXHIBITS

Q. Please describe the principal accounting exhibits used to support UGI Gas's claims in this proceeding.

A. UGI Gas Exhibit A (Fully Projected) provides the calculation of the revenue requirement for the FPFTY, including principal accounting exhibits, rate base claims, revenue at present rates, operating expense claims, taxes and certain *pro forma* adjustments. The FPFTY information is derived from UGI Gas's operating and capital budgets for the 12-month period ending September 30, 2026. UGI Gas Exhibit A (Future) is the principal accounting exhibit for the FTY, including certain *pro forma* adjustments. The FTY information is derived from UGI Gas's operating and capital budgets for the 12-month period ending September 30, 2025. UGI Gas Exhibit A (Historic) is the principal accounting exhibit for the HTY, with appropriate ratemaking adjustments. The HTY information is derived from the book accounting data for the 12-month period ended September 30, 2024. The future and historic schedules are provided as a benchmark for comparison with the FPFTY claim, which, as explained above, is the basis for UGI Gas's proposed revenue increase of $110.395 million.

Q. Please provide an overview of UGI Gas's principal accounting exhibits.

A. As noted above, UGI Gas's claims in this case are based on UGI Gas Exhibit A (Fully Projected). This presentation is comprised of four sections:

Section A summarizes UGI Gas's requested *pro forma* rate base, revenues, and expenses at present rates and the calculation of its requested revenue increase.

Section B includes basic accounting data extracted from UGI Gas's financial, accounting, operating and capital budgets, and other records. This data includes a balance sheet, a statement of net operating income and test year revenues, a schedule of expense items by cost element, and a tax expense calculation. Also included are schedules showing UGI Gas's embedded cost of debt, year-end capital structure and overall claimed rate of return.

Section C provides the elements of UGI Gas's rate base claim and how each element of that claim is derived. UGI Gas's rate base includes utility plant in service, gas storage inventory, cash working capital, materials and supplies inventory, and offsets for accumulated depreciation, accumulated deferred income taxes, and customer deposits.

Section D presents UGI Gas's revenues and expenses on a *pro forma* ratemaking basis. Necessary adjustments to budgeted levels of expense items and revenues are summarized in Schedules D-1 through D-2 and detailed in the remaining schedules. The resulting FPFTY expense and revenue levels are shown on Schedule D-3 and were used to establish UGI Gas's *pro forma* income at present and proposed rates as set forth in Schedule A-1.

Q. What information is included in UGI Gas Exhibits A (Future) and A (Historic)?

A. UGI Gas Exhibits A (Future) and A (Historic) follow the format of UGI Gas Exhibit A (Fully Projected), but reflect data for the fiscal year ended September 30, 2025, and the fiscal year ending September 30, 2024, respectively. This information is provided to comply with the Commission's filing requirements and provides a basis for comparing the FPFTY claims with actual and projected results from the FTY and HTY.

Q. What are the data sources for the UGI Gas Exhibit A (Future) and UGI Gas Exhibit A (Historic)?

A. This data is derived from UGI Gas's books and records as well as its capital and operating budgets. UGI Gas Exhibit A (Future) is based on adjusted budgeted data for the FTY. UGI Gas Exhibit A (Historic) is based on adjusted experienced data for the HTY.

III. REVENUE REQUIREMENT FOR THE FULLY PROJECTED FUTURE TEST YEAR

Q. How is your discussion of UGI Gas's FPFTY revenue requirement presentation organized?

A. In Section III.A., I present a summary of UGI Gas's FPFTY revenue requirement. In Section III.B., I discuss UGI Gas's proposed rate base. In Section III.C., I explain the determination of UGI Gas's revenues and operating expenses, depreciation, taxes other than income taxes, income taxes, and the gross revenue conversion factor.

A. FPFTY REVENUE REQUIREMENT SUMMARY

Q. How were the *pro forma* revenue increase and total revenues at proposed rates established?

A. This calculation is shown at a summary level on Schedule A-1, column 4, of UGI Gas Exhibit A (Fully Projected). Lines 1-9 summarize the *pro forma* measure of value (rate base). Lines 10-19 show the following items at present rates: *pro forma* revenues, *pro* *forma* expenses, taxes, taxes on the revenue increase, *pro forma* net operating income, and the calculated rate of return. Lines 20-23 show the increase in net operating income required to permit UGI Gas to earn the claimed overall rate of return of 8.42%. Application of the Gross Revenue Conversion Factor establishes the revenue increase shown on line 25 needed to generate the change in operating income. Column 4 of Schedule A-1 shows the level of the revenue increase and the increase in expenses associated with the revenue increase. Column 5 of Schedule A-1 shows the revenue, expenses, and rate base at proposed rates, as well as the resulting rate of return of 8.42%.

Q. What is the overall requested increase in revenue?

A. The overall requested increase in revenue is $110.395 million. This represents the difference between the *pro forma* FPFTY revenue requirement of $1.251 billion and the annual level of operating revenues of $1.141 billion under existing rates. These figures are shown on line 13 of Schedule A-1 of UGI Gas Exhibit A (Fully Projected).

B. FPFTY RATE BASE

Q. With reference to UGI Gas Exhibit A (Fully Projected), please discuss how the Company's specific rate base items are determined.

A. UGI Gas's rate base presentation is shown in UGI Gas Exhibit A (Fully Projected), Schedule C-1. Schedule C-1 summarizes the UGI Gas rate base values for the FPFTY. Column 1 indicates the schedule upon which the calculation of each of the rate base elements is found. Columns 3 and 5 show the amounts at present and proposed rates, respectively. UGI Gas's total FPFTY rate base claim is $4.003 billion. Please see the direct testimony of Vivian K. Ressler (UGI Gas Statement No. 3) for a discussion of the rate base components.

C. FPFTY REVENUES AND EXPENSES

Q. How were revenues at present rates determined?

A. Revenues at present rates were determined by adjusting the budgeted revenues to reflect the anticipated change in the number of customers, the projected change in existing customer usage, the roll-in of revenues from the Distribution System Improvement Charge ("DSIC"), and other *pro forma* annualizing and normalizing ratemaking adjustments. The net effect of these adjustments is shown in UGI Gas Exhibit A (Fully Projected), Schedule D-5, and is discussed in the direct testimony of Sherry A. Epler (UGI Gas Statement No. 8).

Q. Please provide an overview of UGI Gas's principal accounting exhibits relative to operating expense claims.

A. UGI Gas's principal accounting exhibit is UGI Gas Exhibit A (Fully Projected), which includes a presentation for the FPFTY ending September 30, 2026. Section D of UGI Gas Exhibit A (Fully Projected) presents UGI Gas's claims and necessary adjustments to budgeted levels of expense items and revenues. The *pro forma* adjustments related to expense are summarized in Schedules D-3 and D-6 through D-34. These expense adjustments are used, in part, to derive UGI Gas's *pro forma* income at present and proposed rates as set forth in Schedule D-1.

UGI Gas Exhibit A (Future) and UGI Gas Exhibit A (Historic) follow the format of UGI Gas Exhibit A (Fully Projected) but reflect data for the appropriate test years ending

September 30, 2025 and 2024, respectively. This information is provided in accordance with the Commission's filing requirements and provides a basis for comparing UGI Gas's FPFTY claims with prior results.

1. Summary

Q. Please describe Schedule D-1 of UGI Gas Exhibit A (Fully Projected).

A. Schedule D-1 presents a summary income statement that includes UGI Gas's claimed gas revenues, expenses, and taxes at present and proposed rate levels. The direct testimony of Sherry A. Epler (UGI Gas Statement No. 8) addresses the presentation of *pro forma* revenues, adjustments thereto, and the supporting schedules. Schedule D-1 also shows the proposed revenue increase of $110.395 million on line 4 in column 2.

Q. What is the level of net income at proposed rates?

A. As shown on column 3, line 21, net income at proposed rates is $337.094 million. This represents a $78.843 million increase from the level under current rates ($258.251 million), as shown on line 21 in column 1 of Schedule D-1.

Q. Please describe Schedule D-2.

A. Schedule D-2 shows the development of the various line items found on Schedule D-1. Column 2 contains the Company's budgeted level of revenues and expenses for the 12-month period ending September 30, 2026. Column 3 shows adjustments to the column 2 figures, where applicable, to reflect various annualization and/or normalization adjustments. Column 4 is the sum of columns 2-3. The amount of the revenue increase and related expenses are shown in column 5 with the resulting revenues and expenses at proposed rates shown in column 6.

Q. Are there schedules showing the derivation of the adjustments shown in Schedule D-2, column 3?

A. Yes. The derivation of the various column 3 revenue adjustments is included in UGI Gas Exhibit A (Fully Projected) in summary fashion on Schedule D-3, page 1, lines 1-13, and then listed by individual adjustment on Schedule D-5. Customer charge and distribution rate revenue adjustments for each customer class are shown on lines 1-5 of Schedule D-3. Gas cost revenue adjustments for each customer class are shown on lines 6-10 and details of other revenue adjustments are shown on lines 11-13 of Schedule D-3. Details for each revenue adjustment are shown in Schedules D-5 (including supporting Schedule D-5A) and are discussed in the direct testimony of witness Sherry A. Epler (UGI Gas Statement No. 8). Another revenue adjustment, shown in Schedule D-5B, is sponsored by Darin T. Espigh (UGI Gas Statement No. 7). This adjustment, in the amount of $795,000, represents the amortization of the CIAC Tax Gross Up Regulatory Liability for interconnects. Regarding *pro forma* expenses, the derivation of the various adjustments is summarized individually on pages 1-2 of Schedule D-3, lines 16-55. The details for these adjustments are found in Schedules D-6 through D-31 and are sponsored by multiple witnesses, as described in the Table of Contents of UGI Gas Exhibit A (Fully Projected) and as listed on the header of each schedule.

2. Operating Expense

Q. How were the claimed operating expenses for the FPFTY determined?

A. *Pro forma* FPFTY expenses are based on the budgeted level of expenses as a starting point. The budgeted data, by FERC account, was then adjusted consistent with generally accepted ratemaking principles to reflect a normal, ongoing level of operations. Schedules supporting those adjustments are found in UGI Gas Exhibit A (Fully Projected), Section D.

Q. Were each of the *pro forma* adjustments reflected on Schedule D-3 also charged to an appropriate FERC account?

A. Yes. Each *pro forma* adjustment was calculated and then distributed to FERC accounts directly and presented on Schedule D-3 by major FERC account category.

Q. Schedule D-3 to UGI Gas Exhibit A (Fully Projected) shows an adjustment to Gas Costs in column 4. Please discuss this adjustment.

A. The detail for this adjustment is shown in Schedule D-6. This adjustment is designed to increase purchased gas cost expense by the same amount of the gas cost revenue adjustment contained in the direct testimony of Sherry A. Epler (UGI Gas Statement No. 8) and as shown on Schedule D-5, column 4, lines 7-12. UGI Gas recovers its purchased gas costs on a dollar-for-dollar basis with no profit through an automatic adjustment clause mechanism pursuant to Section 1307(f) of the Public Utility Code. Therefore, the increase in purchased gas costs of $8.114 million equals the increase in gas cost revenue as detailed by Ms. Epler. Thus, with this adjustment, purchased gas cost expense has no effect on the revenue requirement calculation.

Q. Please discuss the Salaries and Wages adjustment shown on Schedule D-7 in the amount of $966,000.

A. Schedule D-7, Column 4, shows a $966,000 increase to budgeted salaries and wages to reflect end of FPFTY operating conditions. This adjustment annualizes payroll expense and is distributed among the various cost accounts. Page 2 of Schedule D-7 shows the development of this adjustment.

Q. Please describe the annualization adjustment.

A. This adjustment annualizes the effect of wage increases for unionized employees that will take place during the FPFTY. Schedule D-7, page 2, line 2 reflects the increased percentages for each classification of employee. Lines 3 through 5 indicate the percentage of the year for which the salary and wage increases are not reflected in the budget.

Q. How did you determine the split of the budgeted salaries among the various employee classifications shown on Schedule D-7?

A. The split of the budgeted salaries among the various classifications shown on Schedule D-7, page 1, was determined using the allocations of labor and headcount for Operating and Maintenance expense in the budget. These employee groupings are the same groupings utilized in developing the labor budget. These categories were used in UGI Gas's budgeting process for the operating expense portion of salaries and wages.

Q. Are there other salary and wage adjustments shown on Schedule D-7?

A. Yes. Schedule D-7 (Column 2, Line 16, Page 1) shows a total adjustment to salaries and wages in the amount of $2.140 million for a compensation benchmarking adjustment. The detail for this adjustment is presented on Schedule D-9 and aligns salaries for specific positions with relevant industry pay-scales. This adjustment is discussed in more detail in the direct testimony of Hans G. Bell (UGI Gas Statement No. 1).

Q. What adjustments are shown on Schedule D-8?

A. Schedule D-8 represents an adjustment in the amount of ($6.119) million for environmental remediation expense. The adjustments are described in further detail in the direct testimony of Vivian K. Ressler (UGI Gas Statement No. 3).

Q. Please describe the salary and wage adjustments shown in Schedule D-9.

A. These salary and wage adjustments are discussed in the direct testimony of Hans G. Bell (UGI Gas Statement No. 1) and relate to compensation adjustments the Company is making as a result of a recent compensation benchmarking review. The $2.397 million adjustment on Schedule D-9, Column 3, line 5, reflects an incremental increase in salary, bonus, and benefit costs. The Company calculated the Benefits component (Schedule D-9, Column 2, lines 1 - 4) by applying 12% to the Compensation Benchmark Adjustment Subtotal (*i.e.*, 12% x $2,140,414 = $256,850).

Q. Please discuss Schedule D-10, which shows an adjustment for Rate Case Expense.

A. Lines 1 through 4 show the rate case expense that UGI Gas expects to incur in this case of $1.431 million. That amount is then normalized over a one-year period given the anticipated timing related to the next UGI Gas rate case, as discussed in the direct testimony of Hans G. Bell (UGI Gas Statement No. 1). The budgeted amount of rate case expense in the FPFTY was $880,000. The budget was increased by $551,000 as shown in Column 3, line 8 to reflect more current costs.

Q. What is the nature of the adjustments shown on Schedule D-11?

A. Schedule D-11 represents adjustments in the amount of $770,000 for uncollectible expense. The adjustments are described in further detail in the direct testimony of Vivian K. Ressler (UGI Gas Statement No. 3).

Q. Please explain the adjustment shown on Schedule D-12.

A. Schedule D-12 represents an adjustment in the amount of $250,000 to recover costs incurred to perform the Company's biennial cybersecurity audit. The biennial cost was then normalized over 2 years for ratemaking purposes, making the proforma amount $125,000. The adjustment is explained in further detail in the direct testimony of Hans G. Bell (UGI Gas Statement No. 1).

Q. What is the nature of the adjustment shown on Schedule D-13?

A. Schedule D-13 represents adjustments in the amount of $3.742 million for costs to implement several improvements to the Company's leak survey procedures. These adjustments are explained in further detail in the direct testimony of Christopher R. Brown (UGI Gas Statement No. 9).

Q. Please explain the adjustment in the amount of $3.519 million shown on Schedule D-14.

A. Schedule D-14 represents an adjustment in the amount of $3.519 million for pension benefit expense. This adjustment is described in further detail in the direct testimony of Vivian K. Ressler (UGI Gas Statement No. 3).

Q. Please discuss the *pro forma* adjustment on Schedule D-15 for Injuries and Damages.

A. Schedule D-15 represents an adjustment in the amount of $632,000 for injuries and damages. This adjustment is described in further detail in the direct testimony of Vivian K. Ressler (UGI Gas Statement No. 3).

Q. Please discuss the Customer Accounts Expense Adjustment on Schedule D-15 in the amount of $1.583 million.

A. The Company is required to pay interest on Customer Deposits that it holds in accordance with its tariff requirements. Further discussion on customer deposits can be found in the direct testimony of Vivian K. Ressler (UGI Gas Statement No. 3).

Q. Please discuss the *pro forma* adjustment on Schedule D-16 for Universal Service expense.

A. This adjustment normalizes the amount of Universal Services Program ("USP") expense recovered through the Company's USP Rider based on the level of the Universal Service Rider charge effective at the time of the Company's filing in this matter. The USP Rider recovers the Company's Customer Assistance Program ("CAP") Credits, Pre-Program Arrearages, third party administrator expense, LIURP expense, and administrative costs associated with its Project Share program. The Company's claim represents the ongoing normalized level of costs based on anticipated levels of CAP program participation. This adjustment increases the Company's budgeted expense by $5.581 million, to align the expense with the annualized amount of the Company's current USP Rider charge. As the USP Rider is a fully reconcilable rider, the USP adjustment assures that expenses related to the existing rider are aligned with revenues and that no impact related to USP flows through to the revenue requirement calculation and into net income. Please see the direct testimony of Ms. Epler (UGI Gas Statement No. 8) for additional discussion of the USP Rider.

Q. Please describe the adjustment on Schedule D-17.

A. The adjustment shown on Schedule D-17, Column 2, line 2, in the amount of $494,000 is the annual cost to perform material verification of transmission lines pursuant to pipeline integrity regulatory requirements. This adjustment is explained in further detail in the testimony of Christopher R. Brown (UGI Gas Statement No. 9).

Q. Please describe the adjustment on Schedule D-18.

A. The adjustment shown on Schedule D-18, Column 2, line 6, in the amount of $687,000 is incremental costs for pipeline contractors. These cost increases are based on requests for proposals ("RFPs") for new contractor agreements that will become effective March 1, 2025, and are explained in further detail in the testimony of Christopher R. Brown (UGI Gas Statement No. 9).

Q. Please explain the adjustment for Energy Efficiency and Conservation ("EE&C") Programs shown on Schedule D-19.

A. As with the PGC and USP Rider adjustments discussed above, this adjustment in the amount of $152,000 aligns the amount of EE&C expense with the EE&C Rider charge (based on the level of the EE&C Rider charges effective at the time of the Company's filing in this matter). The EE&C Rider recovers the Labor and Administrative, Prescriptive Program, Retrofit Program, New Construction Program, Custom Program, Legal and Consulting, Combined Heat and Power, and other Costs associated with the Company's Energy Efficiency and Conservation Program. This adjustment increases the Company's budgeted expense to align with the annualized amount of the Company's current EE&C charge. As the EE&C Rider is a fully reconcilable rider, the EE&C adjustment assures that expenses related to the existing rider are aligned with revenues and that no impact related to EE&C flows through to the revenue requirement calculation and into net income. Please see the direct testimony of Ms. Epler (UGI Gas Statement No. 8) for additional discussion of the EE&C Rider.

3. Depreciation Expense

Q. How was the level of depreciation expense for the FPFTY determined?

A. UGI Gas's depreciation study is set forth in UGI Gas Exhibit A (Fully Projected) and shows the determination of *pro forma* depreciation expense. This study uses the FPFTY plant in service and the applicable depreciation rates, service lives, and procedures. A summary of the budgeted depreciation expense and adjustments thereto is found in UGI Gas Exhibit A (Fully Projected), Schedule D-21, and is further explained in the direct testimony of John F. Wiedmayer (UGI Gas Statement No. 4).

Q. Please describe the depreciation expense adjustments shown on Schedule D-21.

A. UGI Gas witness Mr. Wiedmayer (UGI Gas Statement No. 4) presents the depreciation analysis that serves as the foundation of the depreciation adjustment. The adjustment for depreciation expense of ($3.679) million set forth on Schedule D-21, page 2, column 3, line 64, annualizes budgeted FPFTY depreciation expense to calculate an entire year's worth of depreciation on plant in service (as of the end of the FPFTY). This schedule also shows a decrease to the net negative salvage amortization of $84,000. The total annualized depreciation expense for the FPFTY, net of costs charged to clearing accounts and net salvage amortization, is $157.093 million (as shown on Schedule D-3, page 2, column 13, line 53).

4. Taxes Other Than Income Taxes

Q. Please describe the taxes other than income adjustments shown on Schedule D-31.

A. Schedule D-31 contains the details for taxes other than income adjustments. The adjustments to the payroll tax expenses on lines 4-6 are calculated by multiplying the ratio of tax expense to payroll expense included in the FPFTY budget by the amount of the payroll adjustment derived in Schedule D-7. This produces an adjustment to the amount of social security, Federal Unemployment Tax ("FUTA") and State Unemployment Tax ("SUTA") expense in the total amount of $248,000. The calculation of these adjustments is shown in more detail on Schedule D-32. The other components of this schedule are supported in the testimony of Darin T. Espigh (UGI Gas Statement No. 7).

5. Income Taxes

Q. What is the purpose of Schedules D-33 and D-34?

A. These schedules show the derivation of the Company's pro forma income tax expense claim, including the normalization of the effects of accelerated tax depreciation, as discussed in the direct testimony of Darin T. Espigh (UGI Gas Statement No. 7).

6. Gross Revenue Conversion Factor

Q. What is the purpose of Schedule D-35?

A. Schedule D-35 shows the calculation of the Gross Revenue Conversion Factor used on Schedule A-1 to calculate the level of revenues required to achieve the net operating income required to generate the rate of return supported by the direct testimony of Paul R. Moul (UGI Gas Statement No. 6). These additional revenues are required to recognize that uncollectible accounts expense vary with the level of revenue and to recognize the additional state and federal income taxes attributable to the proposed rate increase.

IV. ACT 40 REQUIREMENTS

Q. Ms. Hazenstab, are you familiar with Section 1301.1 of the Public Utility Code, which is otherwise known as Act 40 of 2016?

A. Yes, I am. The legislation, among other things, eliminated the use of consolidated tax savings adjustments for setting rates for public utilities in Pennsylvania. It requires a utility to demonstrate that it shall use at least 50 percent of what otherwise would have been the revenue requirement associated with a consolidated tax savings adjustment to support reliability or infrastructure related to the rate-base eligible capital investment and that the other 50 percent shall be used for general corporate purposes. It is also my understanding that this legislation "shall no longer apply after December 31, 2025," under its own terms. My understanding is predicated in part on the advice of counsel.

Q. Has the Company calculated what would have been the ratemaking level of a consolidated tax savings adjustment for UGI Gas prior to the enactment of Section 1301.1 of the Public Utility Code?

A. Yes, Company witness Darin T. Espigh presents such a calculation in his testimony (UGI Gas Statement No. 7). The Company's three-year average of consolidated taxable income was $116.427 million. Based on Mr. Espigh's calculation of the net positive taxable income of the three merged entities, the amount of consolidated tax savings adjustment applicable to UGI Gas would have been $591,000.

Q. If Act 40 no longer applies as of December 31, 2025, and the Company's claim in this this case is based upon an FPFTY that ends after the date it no longer applies, why is the Company providing this calculation in this proceeding?

A. Based on the advice of counsel, it is also my understanding that Section 1301.1(c)(2) of the Public Utility Code states that Act 40 "shall apply to all cases where the final order is entered after the effective date of this section." Based upon the timing of this case's filing, and the duration of the statutory suspension period applicable to base rate cases, the Commission must issue a final order in this case after the effective date of Act 40 but before its December 31, 2025 expiration date. Due to this timing and the fact that Act 40 will expire during the FPFTY, the Company is providing what would have been the ratemaking level of a consolidated tax savings adjustment for UGI Gas prior to the enactment of Section 1301.1 of the Public Utility Code.

Q. Does the Company's rate base claim in this case support the conclusion that it is using at least 50 percent of that revenue requirement amount (associated with a consolidated tax savings adjustment) to support reliability or infrastructure related capital investments?

A. Yes, as included in Schedule C-2 and as discussed in the direct testimony of Ms. Schappell (UGI Gas Statement No. 5), UGI Gas's *pro forma* capital additions for reliability or infrastructure projects in the FTY is $316 million and for the FPFTY is $328 million. This expenditure level is greater than 50% of the amount of what would have been the consolidated tax savings adjustment under prior ratemaking principles.

Q. Does the Company's rate base claim in this case support the conclusion that it is using at least 50 percent of that revenue requirement amount to support general corporate purposes?

A. Yes. The Company's general corporate purpose expense will also exceed 50% of the tax benefit resulting from elimination of the consolidated tax adjustment. Indeed, the Company anticipated an operating expense budget of more than $811 million in operating expenditures to be used to render gas distribution service; 50 percent of the consolidated tax adjustment revenue requirement would equate to only $414,000.

Q. Is the Company's presentation in this filing consistent with the Commission's and the Commonwealth Court's treatment of PA Act 40 of 2016?

A. Yes. The Company's presentation in this filing is consistent with the Commission's determination on PA Act 40 in the UGI Electric 2018 Base Rate Proceeding at Docket No. R-2017-2640058, and the Commonwealth Court's order affirming the Commission's order on appeal.

Q. Does this conclude your direct testimony?

A. Yes, it does.

UGI GAS

EXHIBIT TAH-1

Tracy A. Hazenstab
Sr. Manager – Utility Rates

Work Experience:

2024 – Current	Sr. Manager – Utility Rates UGI Utilities, Inc., Denver, PA
2008 - 2024	Rates Analyst – II/Sr/Principal (Progressive Positions) UGI Utilities, Inc., Denver, PA
2004 - 2008	Business Analyst PPL Gas, Lewistown, PA
2001 - 2004	Contact Center Analyst PPL Gas, Lock Haven, PA

Previous Testimony – Pennsylvania Public Utility Commission:

2014 1307(f) Proceeding:	Docket No. R-2014-2543523
2015 1307(f) Proceedings:	Docket Nos. R-2015-2480937, R-2015-2480934
2016 1307(f) Proceedings:	Docket Nos. R-2016-2543311, R-2016-2543314
2018 1307(f) Proceedings:	Docket Nos. R-2018-3001631, R-2018-3001632
2019 1307(f) Proceeding:	Docket No. R-2019-3009647
2019 UGI Electric EEC Phase III Petition:	Docket No. R-2019-3004144
2020 1307(f) Proceeding:	Docket No. R-2020-3019680
2021 UGI Gas Base Rate Proceeding:	Docket No. R-2021-3030218
2022 UGI Electric Base Rate Proceeding:	Docket No. R-2022-3037368
2023 1307(f) Proceeding:	Docket No. R-2023-3040290
2024 UGI Gas EEC Phase II Petition:	Docket No. R-2024-3048418
2024 UGI Electric DSP V Petition:	Docket No. R-2024-3049343
2024 UGI Gas Book 2 Proceeding:	Docket No. R-2024-3048828

Previous Testimony – Maryland Public Service Commission:

Purchased Gas Adjustment/Annual Cost Adjustment Hearing:

2008 Hearing:	Case Number 9511(c)
2009 Hearing:	Case Number 9511(d)
2010 Hearing:	Case Number 9511(e)
2012 Hearing:	Case Number 9511(g)
2014 Hearing:	Case Number 9511(i)
2015 Hearing:	Case Number 9511(j)
2016 Hearing:	Case Number 9511(k)
2017 Hearing:	Case Number 9511(l)
2018 Hearing:	Case Number 9516(a)
2019 Hearing:	Case Number 9516(b)
2020 Hearing:	Case Number 9516(c)

Assisted in Preparing – Pennsylvania Public Utility Commission:

2009 UGI Gas Rate Case (former Central Rate District):	Docket No. R-2008-2079675
2009 UGI Gas Rate Case (former North Rate District):	Docket No. R-2008-2079660
2011 UGI Gas Rate Case (former Central Rate District):	Docket No. R-2010-2214415
2016 UGI Gas Rate Case (former South Rate District):	Docket No. R-2015-2518438
2017 UGI Gas Rate Case (former North Rate District):	Docket No. R-2016-2580030
2018 UGI Electric Rate Case	Docket No. R-2017-2640058
2019 UGI Gas Rate Case	Docket No. R-2018-3006814
2020 UGI Gas Rate Case	Docket No. R-2019-3015162

Education:

B.A. in International Politics, Pennsylvania State University

UGI GAS STATEMENT NO. 3

VIVIAN K. RESSLER

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Docket No. R-2024-3052716

UGI Utilities, Inc. – Gas Division

Statement No. 3

Direct Testimony of
Vivian K. Ressler

Topics Addressed:

Accounting Process and Historic Costs
Fully Projected Future Test Year Rate Base
Budgeting Process
Operating Expense Adjustments
Capital Treatment of Certain Information Technology Costs

Dated: January 27, 2025

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Vivian K. Ressler. My business address is 1 UGI Drive, Denver, Pennsylvania 17517.

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

A. I am employed by UGI Utilities, Inc. ("UGI") as Director – Utility Financial Planning &Analysis ("FP&A"). UGI is a wholly-owned subsidiary of UGI Corporation ("UGI Corp."). UGI has two operating divisions, the Gas Division ("UGI Gas" or the "Company") and the Electric Division ("UGI Electric"), each of which is a public utility regulated by the Pennsylvania Public Utility Commission ("Commission" or "PUC").

Q. What are your responsibilities as Director – Utility FP&A?

A. I have responsibility for UGI's financial budgeting, forecasting and analysis processes. I lead a team of analysts responsible for preparing the annual budget, including obtaining input from operational departments throughout the business. The team also performs analysis of budget to actual variances and completes financial forecasting and modeling to support business decisions. My duties also include the coordination of these functions with UGI's Accounting Department and the UGI Corp. Vice President FP&A Domestic Business Units as well as other finance and accounting personnel at UGI Corp.

Q. Please describe your educational background and work experience.

A. My full educational background and work experience are set forth in my resume attached as UGI Gas Exhibit VKR-1.

Q. Have you testified previously before this Commission?

A. Yes. UGI Gas Exhibit VKR-1 provides a list of the proceedings in which I have testified.

Q. What is the purpose of your testimony?

A. I am providing testimony on behalf of UGI Gas in support of the Company's rate case accounting methodology and certain operating expense adjustments. First, I will explain UGI Gas's accounting processes, which were used to develop the actual book accounting results, which are the basis for the Company's historic test year ended September 30, 2024 ("HTY") (Section II).[1] Second, I will present the Company's claim for rate base in this proceeding using a fully projected future test year ("FPFTY") methodology (Section III). Next, I will discuss the budgeting process (Section IV) and certain operating expense adjustments (Section V). Finally, I will discuss the Company's accounting for certain Information Technology ("IT") costs (Section VI).

Q. Ms. Ressler, are you sponsoring any exhibits in this proceeding?

A. Yes. I am sponsoring UGI Gas Exhibits VKR-1 and VKR-2. In addition, I am sponsoring those portions of UGI Gas Exhibit A (Fully Projected), Exhibit A (Future) and Exhibit A (Historic), which address rate base and certain adjustments to rate base and operating expenses discussed later in my testimony. I am also sponsoring those responses to the Commission's standard filing requirements as stated on the master list accompanying this filing.

[1] The budgeting process for the future test year ending September 30, 2025 ("FTY") and the FPFTY ending September 30, 2026 are discussed in Section IV of my testimony.

II. ACCOUNTING PROCESS AND HISTORIC COSTS

Q. How are the accounting records of UGI Gas maintained?

A. The accounting records of UGI Gas are kept in accordance with generally accepted accounting principles ("GAAP") and the Federal Energy Regulatory Commission's ("FERC") Uniform System of Accounts as required under the provisions of 52 Pa. Code § 59.42. The Company also maintains a continuing property records system in accordance with the requirements of 52 Pa. Code § 59.46.

Q. Are the books and records of UGI Gas subject to audit?

A. Yes. The books and records of UGI Gas are audited by its internal auditors. In addition, UGI Gas's books and records are included in Company-wide audits of UGI, performed by its external auditor (Ernst & Young, LLP thru Fiscal 2024 and KPMG, LLP beginning Fiscal 2025). The Company's books and records are further subject to audit by the PUC.

Q. Do the continuing property records of UGI Gas reflect the original cost value of property?

A. Yes, they do. UGI Gas's plant in service, plant additions, retirements, and book adjustments have been recorded on an original cost basis in accordance with GAAP and the Uniform System of Accounts requirements.

Q. What process does UGI Gas follow to assure that property reflected in its plant accounts is in service?

A. UGI Gas's capital project managers create records that document the costs of projects and/or asset purchases. When a capital project or asset is placed into service, the project manager records the in-service date and the retirement detail for any related assets that are taken out of service. Then, the record is provided to accounting personnel. This information is transferred through accounting entries into the appropriate UGI Gas plant property accounts, subject to review by authorized individuals who approve the entries and further review by internal and external auditors.

Q How was the Company's accounting process used in preparing the Company's filing?

A. The above-described accounting process was used to prepare the principal accounting exhibits that support UGI Gas's claim in this proceeding. As discussed in the direct testimony of Company witnesses Hans G. Bell (UGI Gas Statement No. 1) and Tracy A. Hazenstab (UGI Gas Statement No. 2), the Company's claim is based on the FPFTY. The accounting data for the FPFTY was derived from UGI Gas's operating and capital budgets for the 12 months ending September 30, 2026, as shown in UGI Gas Exhibit A (Fully Projected). The accounting data for the FTY was derived from UGI Gas's operating and capital budgets for the 12 months ending September 30, 2025, as shown in UGI Gas Exhibit A (Future). The accounting data for the HTY was derived from UGI Gas's books and records for the 12 months ending September 30, 2024, as shown in UGI Gas Exhibit A (Historic).

III. <u>FULLY PROJECTED FUTURE TEST YEAR RATE BASE</u>

Q. With reference to UGI Gas Exhibit A (Fully Projected), please discuss how the Company's specific rate base items are determined.

A. UGI Gas's rate base presentation is shown in UGI Gas Exhibit A (Fully Projected), Schedule C-1. It summarizes the UGI Gas rate base values for the FPFTY. Column 1 provides the schedule where the calculations of each of the rate base elements are found. Columns 3 and 5 show the amounts at present and proposed rates, respectively. UGI Gas's total FPFTY rate base claim—net of deductions for accumulated depreciation, accumulated deferred income taxes and customer deposits—is $4.003 billion. Except where otherwise noted, I will describe each of the rate base elements in greater detail below.

1. Utility Plant in Service

Q. Please explain how UGI Gas determined its FPFTY rate base value for net plant in service.

A. UGI Gas's claim for gross utility plant in service represents the sum of the closing plant balances as of September 30, 2024, plus budgeted additions placed in service for the years ending September 30, 2025 and September 30, 2026, less expected FTY and FPFTY plant retirements. The direct testimony of Company witness Vicky A. Schappell (UGI Gas Statement No. 5) discusses the capital addition planning process and the basis for the additions placed in service in the FTY and FPFTY.

UGI Gas's claim also reflects a reduction for accumulated depreciation, which is based on the closing accumulated depreciation balances as of September 30, 2024, plus depreciation expense for the years ending September 30, 2025 and September 30, 2026, less expected FTY and FPFTY plant retirements.

Q. Please describe Schedule C-2 to UGI Gas Exhibit A (Fully Projected).

A. This schedule presents UGI Gas's FPFTY claim of $6.219 billion for used and useful gas gross utility plant in service on page 2, column 2, line 64. That amount is also reflected on line 1 of the measure of value summary on Schedule C-1. Gas utility plant enables UGI Gas to provide safe and reliable gas service to its customers.

Q. Please describe the information included on Schedule C-2, page 3.

A. This information provides a summary of UGI Gas's *pro forma* claim for gross utility plant in service by category. Column 2 shows the FPFTY ending balances based on the placed in-service budget; column 3 shows the net effect of the various plant adjustments, if any; and column 4 provides the adjusted FPFTY plant in service.

Q. What information is included on Schedule C-2, pages 4 and 5?

A. Columns 2 and 3 on these pages show the gas plant in service balances for 2025 and 2026 at the FERC account level, based on the placed in service budget. Column 5 provides the ending FPFTY plant balance at the FERC account level.

Q. Where are plant in service additions shown?

A. Pages 6 and 7 of Schedule C-2 provide actual (for the HTY) and projected (for the FTY and FPFTY) plant in service additions. The Company categorizes plant in service additions by FERC account.

Q. Where are plant retirements shown and how were these retirements projected?

A. Pages 8 and 9 of Schedule C-2 provide actual (for the HTY) and projected (for the FTY and FPFTY) plant retirements. Retirements for most plant accounts were projected by plant account. The Company applied the average retirement rate, as a percent of additions, for the five fiscal years 2020 through 2024, to the FPFTY and FTY plant in service additions. For certain plant accounts subject to amortization accounting, retirements are recorded when a vintage is fully amortized. For these accounts, all units are retired when the vintage is fully amortized.

2. Accumulated Depreciation

Q. Please explain how UGI Gas determined its rate base deduction for accumulated depreciation.

A. UGI Gas started with accumulated depreciation as of September 30, 2024, added the budgeted level of depreciation expense for the FTY and FPFTY, and calculated the impact of the FTY and FPFTY plant retirements and a provision for net salvage as shown on Schedule C-3. The depreciation rates and test year expense levels are discussed in the direct testimony of John F. Wiedmayer (UGI Gas Statement No. 4), with the underlying FPFTY depreciation analysis provided in UGI Gas Exhibit A (Fully Projected).

Q. Please describe UGI Gas's accumulated depreciation claim.

A. UGI Gas's accumulated depreciation claim is shown on Schedule C-3 of UGI Gas Exhibit A (Fully Projected). This schedule presents the accumulated provision for depreciation as of September 30, 2026, distributed among the various FERC accounts. The total amount for accumulated depreciation, $1.619 billion, is summarized on page 2, column 2, line 64, of this schedule. That amount is reflected on line 2 of the measure of value summary on Schedule C-1 as a reduction to rate base.

Page 3 of Schedule C-3 shows the *pro forma* FPFTY level of accumulated depreciation distributed to the various plant categories. Pages 4 and 5 show the details of the accumulated depreciation by FERC account for Fiscal Years 2025 (column 2) and 2026 (column 3) based on budget plus adjustments (column 4), if any, to arrive at the FPFTY balance (column 5). Pages 6 and 7 show the cost of removal by FERC account and pages 8 and 9 show negative net salvage amortization by FERC account. Pages 10 and 11 include the salvage amounts by FERC account. These amounts are included in the FPFTY accumulated depreciation calculations. The amortization of negative net salvage was calculated using a 5-year amortization schedule in accordance with Commission precedent.

Q. Please summarize UGI Gas's net in plant in service claim.

A. UGI Gas's net plant in service claim reflects *pro forma* gross utility plant of $6.219 billion at September 30, 2026, less *pro forma* accumulated depreciation of $1.619 billion at September 30, 2026. These amounts are both reflected on the measure of value summary on Schedule C-1.

3. Cash Working Capital

Q. Please explain how UGI Gas determined its rate base value for cash working capital ("CWC").

A. CWC is the capital requirement arising from the difference between (1) the lag in the receipt of revenue for rendering service and (2) the lag in the payment of cash expenses incurred to provide that service, as shown in Schedule C-1. A detailed analysis of UGI Gas's CWC requirements is provided in Schedule C-4.

Q. Where is the CWC rate base value summarized?

A. The CWC rate base value is summarized at Schedule C-4, page 1. The various components of the working capital claim are listed on this page, along with a reference to the page where the component is further detailed within Schedule C-4.

Q. What data is shown on page 2 of Schedule C-4?

A. Page 2 summarizes the derivation of UGI Gas's revenue collection lag and overall expense payment lag. The revenue lag is of 56.60 days (line 1). Expense lag days include three categories of annual operating expenses: (1) payroll; (2) purchased gas costs; and (3) other expenses. The expense lag days are shown for each component (lines 3-5), which amount to 25.62 days (line 7). The net lag in the collection of revenue is 30.97 days (line 8). This number is then multiplied by the average daily operating expense balance (line 9) to arrive at a base CWC amount for Operations and Maintenance ("O&M") expense of $54.762 million (line 10). The average daily expense balance of $1.768 million (line 9) is determined by dividing the total *pro forma* annual operating expenses, excluding uncollectible accounts expense, of $645.350 million (line 6, column 2), by the number of days in the year, or 365. I will describe the other components of the CWC claim when I discuss the related schedules.

Q. Please describe the revenue lag calculation shown on Schedule C-4, page 3.

A. The Company's calculation for the total revenue lag days of 56.60 (line 23) consists of several steps. First, the annual revenue (line 18, column 3) is divided by the average month-end accounts receivable balances for the 13 months ended September 30, 2024 (line

17, column 2). This results in an accounts receivable turnover rate of 9.32 (line 19, column 4), which is equivalent to 39.16 lag days (line 20, column 5) (i.e., 365 divided by 9.32 accounts receivable turnover rate). As shown on lines 20-23, the payment portion of the revenue lag is added to: (1) the 2.23-day lag between the meter reading day and the day bills are sent out and recorded as revenue and accounts receivable by the Company (appearing on line 21); and (2) the 15.21-day service lag (i.e., midpoint lag factor), which is the time from the mid-point of the service period until the meter reading date (appearing on line 22). This calculation results in a total revenue lag of 56.60 days.

Q. How was the mid-point of the service period calculated?

A. The mid-point of the service period is equal to the number of days in an average service month (365 days divided by 12, or 30.4 days) divided by two (i.e., 15.21 days).

Q. How are the payroll expense lag days for the CWC claim calculated?

A. This calculation is shown on page 4 of Schedule C-4, lines 1-6. The payroll amounts shown there reflect the payroll for the FPFTY, which is shown on Schedule D-7. The lag periods for union and non-union payroll are shown separately on page 4 of Schedule C-4, lines 1-2, with the same bi-weekly pay period. The lag days are calculated based on 14 days in the pay period divided by 2 (for an average) with a 5-day payroll processing time period added, resulting in a 12-day lag period.

Q. How were the lag days associated with the purchased gas costs shown on Schedule C-4, page 4, line 8 calculated?

A. This calculation is shown on page 6 of Schedule C-4 and is based on a review of gas purchases during the 12-month period of October 2023 through September 2024. The total dollar amount of gas purchased during this period was $368.486 million (on line 13, column 2). The average payment lag was calculated by dividing the total dollar days for purchased gas costs (or $9.005 billion) by the total dollar amount of gas purchased (or $368.486 million), which equals 24.44 days (on line 14). The payment lag was determined using the midpoint of the service period for each of the payments and the payment date for each, averaged over the 12-month study period. The 24.44-day lag for purchased gas costs is then brought forward to Schedule C-4, page 4, line 8 and Schedule C-4, page 2, column 3, line 4.

Q. What are dollar days, and how were they used in the CWC calculation?

A. Dollar days are the product of a payment amount multiplied by the number of days between the invoice date or service date and the date that the payment clears the Company's bank. The dollar days calculation is used to calculate a weighted average number of lag days for both purchased gas costs (Schedule C-4, page 6) and general disbursements (Schedule C-4, page 5).

Q. How were the Other O&M Expense lag days, shown on Schedule C-4, page 4, line 22, calculated?

A. The calculation is shown on page 5 of Schedule C-4. The average payment lag for all remaining expenses was derived from data over the HTY, as shown in more detail on page 5 of Schedule C-4. A summary list of all cash disbursements, including the invoice date, the amount of the disbursement, the date the payment was made, and the type of disbursement (for capital, commodity or expense), during each of these months was used. As shown on page 5, lines 1-24, columns 1 and 2, each month's listing contained numerous cash disbursements. Once the raw payment data was assembled, the dollar days for expense purchases were determined by multiplying the amount of the disbursement by either (i) the number of days from invoice date until bank clearance for wire and Automated Clearing House ("ACH") payments, or (ii) the number of days from the invoice date until check date, plus seven days (representing mail lag) for payments made by check. Disbursements were eliminated if they were included in another calculation (*e.g.*, gas purchases) or were paid for capital items. After these adjustments, the average of the expense lag days for each month shown on Schedule C-4, page 5, column 4, line 25, resulted in a payment lag for general disbursements of 33.10 days. The lag for general disbursements is then brought forward to Schedule C-4, page 4, line 22 and Schedule C-4, page 2, column 3, line 5.

Q. Please explain how the interest payment amount included on line 2 of Schedule C-4, page 1 was determined.

A. The calculation of this amount is shown on Schedule C-4, page 7. This calculation measures the lag associated with the payment of interest on outstanding debt. The *pro forma* annual interest expense shown on line 4 is divided by 365 to obtain the daily interest expense of \$0.259 million shown on page 7, line 5. That amount is then multiplied by the net payment lag, resulting in a reduction to the working capital allowance of \$8.983 million as shown on page 7, line 9 of Schedule C-4. This amount is then included on page 1, line 2 of Schedule C-4.

Q. How was the tax payment lag for the working capital requirement, shown on line 3 of Schedule C-4, page 1, determined?

A. This calculation is shown on page 8 of Schedule C-4. Separate tax payment lag calculations (for working capital) are made for federal income tax, state income tax, PA Property Tax and Public Utility Realty Tax Act ("PURTA") taxes. Each of these calculations is based on anticipated FPFTY tax payments and an April 1 mid-point of annual service. The result for each of these components is shown and summed in column 10 to derive the net working capital allowance for tax payments of \$4.280 million shown on page 8, line 19. This amount is then included on page 1, line 3 of Schedule C-4.

Q. How was the working capital allowance for prepaid expenses, shown on line 4 of Schedule C-4, page 1, derived?

A. That amount is calculated on page 9 of Schedule C-4 and represents the 13-month average of actual pre-paid amounts for each month ended from September 2023 through September 2024. The 13-month average of total actual prepaid amounts during that period is $12.668 million shown on page 9, line 18. This amount is then included on page 1, line 4 of Schedule C-4.

Q. What is the total amount of the Company's CWC claim?

A. UGI Gas's claim for CWC is $62.726 million. This amount is shown on Schedule C-4, page 1, line 5; Schedule C-1, line 4; and on Schedule A-1, line 4.

4. Gas Storage Inventory

Q. Please explain how the rate base value for gas storage inventory was determined.

A. Gas storage inventory represents gas volumes stored in facilities or in storage fields owned by interstate pipeline or storage companies with whom UGI Gas contracts for capacity. As is typical for most natural gas distribution systems, UGI Gas purchases storage gas throughout the year for use primarily during the winter heating season. Specifically, the Company pays its gas storage bills on a monthly basis once the gas is procured in the same way that its pays for gas procured from other sources. Storage inventory is a physical asset that is included in the Company's rate base claim in the same manner as materials and supplies inventory. UGI Gas's claim for gas storage inventory is based on a 13-month average book value for the period ending September 2024 as shown on Schedule C-5. The average monthly gas inventory balance for the FPFTY is $19.462 million, as shown on

Schedule C-5, line 16. This amount is also used in Schedule C-1, line 5 and Schedule A-1, line 5.

5. Accumulated Deferred Income Taxes

Q. Please explain how the rate base value for Accumulated Deferred Income Taxes ("ADIT"), including Excess Deferred Federal Income Taxes ("EDFIT"), was calculated.

A. The Company's determination of its rate base value for ADIT, including EDFIT, is shown on Schedule C-6 and is discussed in the direct testimony of Darin T. Espigh (UGI Gas Statement No. 7). This amount of $687.743 million reduces rate base. This amount is also used in Schedule C-1, line 6 and Schedule A-1, line 6.

6. Customer Deposits

Q. Please explain how the Company calculated the rate base value for customer deposits.

A. Customer deposits offset the need for UGI Gas to provide capital. UGI Gas's claimed offset for customer deposits is based on the average customer deposit balance for the 13-month period ending September 2024.

Q. What is the amount of the rate base offset for customer deposits?

A. The customer deposit offset is $22.616 million, as shown on Schedule C-7, line 16, Schedule C-1, line 7, and on Schedule A-1, line 7.

7. Materials and Supplies Inventory

Q. What is the rate base claim for materials and supplies inventory?

A. UGI Gas maintains various materials and supplies in inventory for use in its operations. The Company's claim for materials and supplies inventory is $31.924 million, as shown on Schedule C-8, line 16, Schedule C-1, line 8, and on Schedule A-1, line 8. This amount is based on the average inventory for the 13-month period ending September 30, 2024, as shown on Schedule C-8.

IV. <u>BUDGETING PROCESS</u>

Q. Please explain UGI Gas's budgetary preparation and approval process.

A. UGI Gas's fiscal year begins on October 1 and ends on September 30 of the following year. Preparation of the UGI Gas Operating Budget for the subsequent two fiscal years begins during the spring, *i.e.*, the budget process for the October 1, 2024 through September 30, 2025 fiscal year (Fiscal 2025) and the October 1, 2025 through September 30, 2026 fiscal year (Fiscal 2026) begins in the spring of 2024, with information being requested and incorporated from all departments. Internal reviews and revisions occur throughout the spring and summer before the final budget for UGI Corporation is approved by the UGI Board of Directors in September – immediately prior to implementing the budget.

The revenue portion of the budget is a joint effort between the Marketing and Financial Planning and Analysis ("FP&A") departments. The Marketing department provides customer growth and attrition information by customer class along with specific large commercial and industrial sales and revenue budget projections. The number of customers by customer class is determined using a wide range of factors, including trends in usage, the level of applications and inquiries for service from existing customers, new construction, and shifts in type of residence and customer mix. Budgeted usage per customer is developed by application of a two-year regression to historic data and incorporates normal weather on a 10-year basis (with such normal weather period being as defined by UGI Corp. for use in the budget process). The budgeted number of customers and usage per customer are combined to produce monthly budgeted sales. The revenue budget is calculated by applying appropriate rates for each customer class to budgeted sales volumes, plus an adjustment for unbilled revenue. The sales and revenue budget is then reviewed with and approved by senior management. Specific normalizing and annualizing ratemaking adjustments to the budget for presentation of the FPFTY sales and revenue in this filing are discussed in the direct testimony of UGI Gas witness Sherry A. Epler (UGI Gas Statement No. 8).

Concurrently to revenue development, the expense portion of the Operating Budget is prepared. Operating and maintenance expenses are developed by functional managers based upon review of trends, monthly expenditure patterns, and new or changed programs. Employee levels are reviewed, and appropriate staffing levels are set for the upcoming fiscal year. The direct expense portion of the Operating Budget is submitted for review and approval by senior management. UGI Gas's direct expenses are then consolidated with allocated expenses from shared administrative and general functions within UGI and from other affiliated companies providing shared services to UGI Gas to develop the budgeted Statement of Operations. Allocated expenses in the Statement of Operations include functions such as accounting, rates, gas supply, human resources, information systems, payroll, and remittance processing, which are performed in accordance with PUC-approved methods of allocation and affiliated interest arrangements or agreements.

The final Operating Budget is then submitted to UGI's President for review and approval. After this approval, the UGI budget is submitted to the Chief Financial Officer at UGI Corp. for additional review and approval and is consolidated with the budgets of other operating units of UGI Corp. The President of each UGI Corp. business unit reviews his or her budget with the UGI Corp. Board of Directors and then the UGI Corp. Board of Directors approves the consolidated UGI Corp budget.

Each element of the UGI Gas Operating Budget is formulated by personnel with responsibilities specific to each aspect of the operation. The first and primary use of the Operating Budget is as a working tool for the management and planning of the business.

In order to prepare the Capital budget, operating personnel in each functional area prepare a detailed list of capital projects. Each project is identified, described, and justified along with a breakdown of the costs associated with it. These projects are presented to senior management, which reviews them in terms of priority, capital availability, and strategic alignment with the operating budget. After due consideration, the Capital Budget is set and presented, along with the Operating Budget, to senior management in a series of review meetings. This Capital Budget is subject to approval by the UGI Corp. Board of Directors in a manner similar to that described above for the Operating Budget. Additional information concerning the factors considered in establishing the UGI Gas Capital Budget is provided in the direct testimony of Vicky A. Schappell (UGI Gas Statement No. 5).

UGI Gas's Operating and Capital Budget processes incorporates two future fiscal years. This allows UGI Gas to utilize the budget as a starting point for its FPFTY rate claim. For example, the Operating and Capital Budget processes that began in the spring of 2024 incorporated information provided by all departments for both Fiscal 2025 and Fiscal 2026.

Q. Please explain how expenses from affiliated companies are treated to develop the budgeted Statement of Operations.

A. UGI Gas incurs costs for services provided by UGI Corp., and other affiliated companies, in accordance with affiliated interest arrangements authorized by the Commission. UGI also allocates or assigns applicable costs between UGI Electric and UGI Gas. Costs that can be identified as pertaining exclusively to an operating unit are billed directly to that unit. Those costs that cannot be directly associated with the operation of an individual operating unit are allocated to the various companies benefiting from the service. Allocations are made by using a methodology applicable to the cost (*e.g.*, budgeted time allocations, number of employees, etc.) or, if no one methodology is specific to the cost, by using a formula referred to as the Modified Wisconsin Formula ("MWF") or another reasonable allocation methodology. The MWF or other allocation methodology achieve an equitable distribution of common expenses based on the relative activity and size of each operating unit to the total of all operating units which benefit from the respective activities. Activity is measured by revenues and O&M expenses. Size is measured by tangible net assets employed (excluding acquisition goodwill) or by gross plant balance.

Q. How is the budget information used to support UGI Gas's requested revenue increase?

A. This budget information is the starting point for UGI Gas's claims and is adjusted as appropriate to reflect certain anticipated changes based on ongoing business activities since the completion of the budgeting process and through application of other appropriate ratemaking principles.

V. OPERATING EXPENSE ADJUSTMENTS

Q. Please describe how the Company's claimed operating expenses were determined.

A. As discussed in the direct testimony of Tracy A. Hazenstab (UGI Gas Statement No. 2), the *pro forma* FPFTY expenses were based on the budgeted level of expenses as a starting point. This budgeted level of expenses was then adjusted to comply with Commission precedent and generally accepted ratemaking principles to reflect a normal, ongoing level of operations. The supporting schedules for those adjustments are found in UGI Gas Exhibit A (Fully Projected), Section D. Below, I will discuss the specific operating adjustments that I am sponsoring, as contained in UGI Gas Exhibit A (Fully Projected), Section D.

1. Environmental Remediation Expenses

Q. What adjustments are shown on Schedule D-8?

A. Consistent with the methodology the Company has used in past rate cases, the first two adjustments shown on Schedule D-8 are designed to reconcile past Environmental Remediation expense rate recoveries with actual incurred costs and to recover a projected annual level of Environmental Remediation expense. These costs are incurred in connection with UGI Gas's obligations under a Consent Order Agreement ("COA") with the Pennsylvania Department of Environmental Protection ("DEP").[2] The third adjustment shown on Schedule D-8 relates to settlement payments negotiated by UGI Gas under certain insurance policies between July 2022 and December 2023. The Company's remediation activities under the COA are discussed in the direct testimony of Christopher R. Brown (UGI Gas Statement No. 9).

Q. Please describe the first Environmental Remediation expense adjustment shown on Schedule D-8.

A. The adjustment (on lines 1 – 6 of Schedule D-8) is intended to provide the Company with normalized ratemaking recovery of ongoing annual cash expenditures primarily to remediate former manufactured gas plant ("MGP") sites in accordance with the COA. Because the amount budgeted is the amount UGI Gas recovered in the most recent previous base rate case, it does not properly reflect the amount that the Company is likely to incur during the FPFTY. Therefore, as in past cases, the Company has chosen to normalize the expenditure based on its recent actual experience.

The average of the last three years of cash expenditures for remediation expenses under the COA is $5.429 million and represents the amount that the Company anticipates that it will spend in the FPFTY under the COA. The difference between this annual amount ($5.429 million) and the amount budgeted by the Company ($5.171 million), or $0.258 million, is the first adjustment.

[2] Effective October 1, 2020, DEP consolidated the Company's prior three COAs (which aligned with the Company's former rate districts) into one COA that covers the entire UGI Gas service territory.

Q. Please describe the second Environmental Remediation expense adjustment shown on Schedule D-8, lines 7 – 11.

A. The second environmental adjustment (on lines 7 - 13 of Schedule D-8) shows the net over-recovery of the Company's MGP remediation expense incurred in past years, and the planned amortization for this net over-recovery. This net over-recovery resulted from the combination of (1) the under-recovery in actual annual remediation costs for Fiscal 2022, Fiscal 2023 and Fiscal 2024 versus the normalized level authorized in the 2022 Gas Rate Case at Docket No. R-2021-3030218 and (2) over-recovery of reconciliation amounts from years prior to Fiscal 2022 (projected through Fiscal 2025). Please see the detailed calculations of this net over-recovery at UGI Gas Exhibit VKR-2.

The over-recovered expenditures of $1.221 million (line 9) will be credited to customers over a two-year amortization period through Fiscal Year 2027, at an amount of $0.610 million per year (line 11). This two-year amortization period is consistent with the period approved in the settlement of the prior rate case at Docket No. R-2021-3030218. This amount is compared to the budget amount of $3.029 million of expense per year, resulting in a budget adjustment of $3.639 million (line 13).

Q. What is the nature of the third Environmental Remediation expense adjustment shown on Schedule D-8, lines 14 – 16?

A. The third environmental adjustment is related to insurance settlement payments received by UGI Gas.

Q. Please further explain the insurance settlement payments.

A. Between June 2022 and December 2023, UGI reached settlement agreements with several of its insurance companies. Within these agreements, the insurance companies and UGI mutually agreed to release each other from certain claims, including claims related to certain MGP sites. In exchange for these agreements, UGI received settlement payments from these insurance companies.

Q. How were the settlement payments from these insurance companies treated within the Company's books and records?

A. The Company completed a calculation to estimate the portion of the settlement payments related to MGP costs which had been recovered from ratepayers in the past or would be recovered from ratepayers in the future. This portion of the settlement payments was recorded as a regulatory liability. The remaining portion of the settlement payments which was not related to costs recovered from ratepayers was recorded directly to income in the Company's financial statements.

Q. How were the settlement payments from these insurance companies treated within this rate proceeding?

A. For the portion of these settlement payments that was recorded as a regulatory liability ($27.378 million), the Company has included a budget adjustment at Schedule D-8, lines 14-16 to amortize these costs over 10 years. This amortization adjustment reduces the Company's overall revenue claim in this proceeding.

Q. Why did the Company select a 10-year amortization period?

A. As discussed in the direct testimony of Christopher R. Brown (UGI Gas Statement No. 9), the Company anticipates continuing to perform environmental remediation activities through at least 2035, which is the end of the term of the COA between PA DEP and the Company. This 10-year amortization period was selected because it coincides with this period.

Q. What ratemaking amount is used to determine the future years' Environmental Remediation costs subject to reconciliation in the next rate case?

A. That amount is the annual amount derived from the first adjustment on Schedule D-8, or $5.429 million, which is the normalized amount indicative of UGI Gas's experience over the past three years. Any future years' variance of actual annual expenditures from that figure will be credited to customers (in the case of an overcollection) or recovered from customers (in the case of an under collection) in the Company's next base rate case.

2. Uncollectible Accounts Expense

Q. Please explain the two adjustments shown on Schedule D-11 for Uncollectible Accounts Expense.

A. The first adjustment, $0.369 million (line 8, column 5), adjusts budgeted uncollectible accounts expense to reflect a three-year average rate of uncollectible accounts expense to tariff revenue for Fiscal Years 2022, 2023, and 2024. The baseline uncollectible accounts expense amount for Fiscal Year 2022 used in the calculation of the three-year average rate includes $4.008 million recorded as a regulatory asset (as further discussed under the second adjustment in Schedule D-11 below).

The amount of uncollectible expense in the budget is adjusted utilizing the three-year average uncollectible rate of 1.746 percent (line 4, column 5), The 1.746 percent is applied to the *pro forma* revenues at present rates (line 6, column 3) to calculate the *pro forma* uncollectible accounts expense of $19.775 million (line 7, column 4). This results in an increase in the level of uncollectible accounts expense for the FPFTY from the budgeted amount of $19.406 million (line 5). The 1.746 percent uncollectible rate is then applied to determine the level of uncollectible accounts expense at *pro forma* proposed rates through the gross revenue conversion factor, as shown in column 3, line 2 of Schedule D-35.

The second adjustment on Schedule D-11 represents the amortization of the regulatory asset balance of $4.008 million for COVID-19 Pandemic Costs over a 10-year amortization period (in accordance with Ordering Paragraph 29 in the Commission's Order entered October 8, 2020 at Docket No. R-2019-3015162). According to Ordering Paragraph 30, COVID-19 Pandemic Costs include "annual uncollectible accounts expense in excess of $12.81 million beginning with the fiscal year period ending September 30, 2020 and continuing for annual periods thereafter until the effective date of the Company's next base rate filing . . . ." The same Ordering Paragraph indicates that such COVID-19 Pandemic Costs shall be eligible for recovery for ratemaking purposes.

For the Fiscal Year ended September 30, 2022, UGI Gas had uncollectible costs of $16.818 million, which resulted in an excess of uncollectible expense incurred over the established threshold of $12.810 million per year of $4.008 million, which was established as a regulatory asset and is being amortized over a 10-year period effective at the beginning of the FPFTY. This results in an increase in the level of uncollectible accounts expense for the FPFTY of $0.401 million, as shown on line 11.

Q. Why are COVID-19 Pandemic Costs incurred in Fiscal 2022 eligible for recovery?

A. Pursuant to the settlement on the UGI Gas 2022 Base Rate Case at Docket R-2021-3030218, the parties agreed to the following regarding COVID-19 Pandemic Costs incurred in Fiscal 2022.

> In accordance with this Settlement and the Commission's October 8, 2020 Final Order at Docket No. R-2019-3015162, the Company shall be permitted to amortize, over the 10-year period beginning with the effective date of rates established in the Company's next base rate proceeding for purposes of accounting and future ratemaking, the regulatory asset balance that accrues for uncollectibles beginning October 1, 2021, and ending September 30, 2022.

Q. What is the total increase (above the budgeted amount) for uncollectible accounts?

A. The total increase (above the budgeted amount) in the uncollectible accounts expense for the FPFTY is $0.770 million, as shown on line 12.

3. Benefits Expense Adjustment

Q. Please describe the adjustment shown on Schedule D-14.

A. The adjustment shown on Schedule D-14 reflects an adjustment from budgeted pension expense to reflect cash to be contributed to the plan in the FPFTY. The Company's budget reflects pension expense based on GAAP requirements to reflect service and non-service costs based on assumptions. However, consistent with prior ratemaking practices, the

Company claims pension costs within its rates on a cash basis. The adjustment is calculated as the total cash contributions (as provided by the Company's actuary in the most recent actuarial report), reduced to reflect only the portion attributable to UGI Gas, and then further reduced to reflect the portion of pension that is capitalizable. This cash pension expense of $5.066 million (line 5) is compared to the budgeted pension expense of $1.547 million (line 1), also calculated for UGI Gas only and net of the capitalizable portion, resulting in an adjustment of $3.519 million (line 6).

4. Injuries and Damages Adjustment

Q. Please discuss the adjustment for Injuries and Damages shown on Schedule D-15.

A. The amount of expense incurred for injuries and damages in any one year can vary based on the quantity and severity of the claims. The Company bases its claim for injuries and damages on a normalized amount. This is accomplished by making an adjustment on this schedule for the difference between the normalized amount and the budgeted amount. The three-year average of injuries and damages expenses of $2.218 million is calculated on lines 1 – 4 of Schedule D-15. The budgeted amount for injuries and damages, $1.586 million, is shown on line 5. The difference between these amounts, $0.631 million, was used to adjust budgeted injuries and damages expense, as shown on line 6, to reflect the normalized expense.

5. Customer Accounts Expense Adjustment

Q. Please discuss the adjustment for Customer Accounts Expense shown on Schedule D-15.

A. This adjustment includes a component to recover interest on customer deposits. The Company is required to pay interest on Customer Deposits that it holds in accordance with its tariff requirements. As this is a typical business expense, the Company has added this amount to its expense claim that is otherwise not reflected in the operations budget. It is calculated by using the average level of customer deposits anticipated for the FPFTY (*i.e.*, $22.616 million) times the required interest rate (7.0 percent) anticipated for the FPFTY, as published by the Pennsylvania Department of Revenue and as required under the Company's tariff. The total interest on customers deposits amount of $1.583 million is shown on line 7.

VI. CAPITAL TREATMENT OF CERTAIN INFORMATION TECHNOLOGY COSTS

Q. What is the Company's policy for capital treatment of certain information technology ("IT") costs?

A. Since 2016, UGI (including UGI Gas and UGI Electric) has received authorization to capitalize certain IT costs associated with software implementation projects within various base rate proceedings. These IT costs consist of internal labor, external consulting expenses, and other expenses related to the preparation of the vendor and system integrator requests for proposals. IT costs also include current-state assessments, reengineering business processes to adapt to the new system, data conversion, cleansing and migration (including field verification and digitization of asset attributes required for accurate data and facility capture), and implementation training costs. Additionally, the Company capitalizes the above-mentioned cost items for cloud computing software implementation projects. Further, beginning in 2019, the Company began capitalizing Hypercare costs associated with large software implementation projects. Hypercare is a term for post-implementation support following the deployment of an IT project to ensure that the newly implemented system operates as planned.

Q. Is the Company planning to continue with similar methods of IT costs capitalization in this proceeding?

A. Yes. The Company continues to capitalize such costs in line with the authorizations received previously, and all such costs which are claimed in the current case are included within the Company's budgeted capital as laid out in Exhibit A (Future) and Exhibit A (Fully Projected).

Q. Does this conclude your direct testimony?

A. Yes, it does.

UGI GAS

EXHIBIT VKR-1

Vivian K. Ressler

Director – Utility Financial Planning & Analysis

Work Experience

UGI Utilities, Inc. – Denver, PA

Oct. 2024 – Current	Director – Utility Financial Planning & Analysis
Jan. 2023 – Sept. 2024	Sr. Manager - Finance
March 2022 – Jan. 2023	Assistant Controller
Dec. 2021 – March 2022	Sr. Manager – Plant & Regulatory Accounting
Feb. 2020 – Dec. 2021	Sr. Manager – SOX, Plant Accounting & Accounts Payable
June 2018 – Feb. 2020	Manager – Technical Accounting & Controls

The Bon-Ton Stores, Inc. – York, PA

May 2014 – May 2018	Departmental Vice President – Corporate Accounting

Trout, Ebersole & Groff, LLP – Lancaster, PA

May 2012 – May 2014	Supervisor – Attest Services

BI-LO, LLC – Greenville, SC

Nov. 2007 – May 2012	Sr. Manager – Corporate Accounting & Tax

Deloitte & Touche, LLP – Greenville, SC

Sept. 1998 – Oct. 2007	Staff Accountant through Sr. Manager – Audit Services

Previous Testimony before the Pennsylvania Public Utility Commission

UGI Gas Base Rate Case	Docket No. R-2019-3015162
UGI Electric Base Rate Case	Docket No. R-2021-3023618
UGI Gas Base Rate Case	Docket No. R-2021-3030218
UGI Electric Base Rate Case	Docket No. R-2022-3037368

Education & Professional Certification

B. S. in Accounting – Bob Jones University, Greenville, SC

Certified Public Accountant – Commonwealth of Pennsylvania

UGI GAS

EXHIBIT VKR-2

UGI Utilities, Inc. - Gas Division
Reconciliation of Environmental Recovery
$ Amounts in '000s

Under / (Over) Recoveries Approved in Prior Rate Case:

Line #	Year(s) to which Under / (Over) Recovery Relates	Docket No. of Rate Case in which Amortization was Mostly Recently Approved	Annual Amortization in Current Rates	Under Recovered Balance at 9/30/2021	FY22	FY23	FY24	FY25	(Over) Recovered Balance at 9/30/2025	
1	Prior to FY20	R-2021-3030218	$ 1,865	$ 5,898	$ (1,865)	$ (1,865)	$ (1,865)	$ (1,865)	$ (1,562)	
2	FY20 & FY21	R-2021-3030218	1,164	2,327	-	(1,067)	(1,163)	(1,164)	(1,066)	
3	Additional Over-Recovery	(1)							(432)	
4	Total		$ 3,028	$ 8,225	$ (1,865)	$ (2,931)	$ (3,028)	$ (3,028)	$ (3,060)	Schedule D-8, Line 7
									(2)	

Under / (Over) Recoveries since Prior Rate Case:

	Year(s) to which Under / (Over) Recovery Relates	Actual Spend in Fiscal Year	Normalized Environmental Costs Included in Rates	Under / (Over) Recovery	Under / (Over) Recovered Balance at 9/30/2025	
5	FY22	$ 3,244	$ 4,188	$ (944)	$ (944)	
6	FY23	5,441	5,089	352	352	
7	FY24	7,602	5,171	2,431	2,431	
8	Total	$ 16,288	$ 14,449	$ 1,839	$ 1,839	Schedule D-8, Line 8
					(2)	

(1) Amount identified as an over collection of environmental costs prior of FY18 since the prior base rate proceeding as a result of internal reconciliation.
(2) Amounts are included within Environmental Adjustment #2 at Schedule D-8 of Exhibit A, Fully Projected

UGI GAS STATEMENT NO. 4

JOHN F. WIEDMAYER

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Docket No. R-2024-3052716

UGI Utilities, Inc. – Gas Division

Statement No. 4

Direct Testimony of
John F. Wiedmayer, C.D.P.

Topics Addressed: **Depreciation and Net Salvage**

Date: January 27, 2025

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DIRECT TESTIMONY OF

JOHN F. WIEDMAYER

DOCKET NO. R-2024-3052716

I. INTRODUCTION

Q. Please state your name and address.

A. My name is John F. Wiedmayer. My business address is 1010 Adams Avenue, Audubon, Pennsylvania 19403.

Q. Are you associated with any firm and in what capacity?

A. Yes. I am associated with the firm of Gannett Fleming Valuation and Rate Consultants, LLC ("Gannett Fleming") as Project Manager, Depreciation and Valuation Studies.

Q. How long have you been associated with Gannett Fleming?

A. I have been associated with the firm since I graduated from college in June 1986.

Q. What is your educational background?

A. I have an AB degree in Engineering from Lafayette College and a Master of Business Administration from the Pennsylvania State University.

Q. Do you belong to any professional societies?

A. Yes. I am a member of the National and Pennsylvania Societies of Professional Engineers and the Society of Depreciation Professionals ("SDP"). In 2005, I served as President of the SDP and was a member of the SDP's Executive Board for the years 2003 through 2007.

Q. Do you hold any special certification as a depreciation expert?

A. Yes. The SDP has established national standards for depreciation professionals. The SDP administers an examination to become certified in this field. I passed the certification exam in September 1997 and have fulfilled the requirements necessary to remain a Certified Depreciation Professional.

Q. Please outline your experience in the field of depreciation.

A. I have over 38 years of depreciation experience, which includes expert testimony in numerous cases before 14 regulatory commissions, including the Pennsylvania Public Utility Commission ("PUC" or "Commission").

In June 1986, I was employed by Gannett Fleming as a Depreciation Engineer. I held that position from June 1986 through December 1995. In January 1996, I was assigned to the position of Supervisor of Depreciation Studies. In August 2004, I was promoted to Project Manager, Depreciation Studies and in January 2022 I was promoted to my present position as Senior Project Manager, Valuation and Depreciation Studies. I am responsible for conducting depreciation and valuation studies, including the preparation of testimony, exhibits, and responses to data requests for submission to the appropriate regulatory bodies. My additional duties include determining final life and salvage estimates, conducting field reviews, presenting recommended depreciation rates to management for its consideration, and supporting such rates before regulatory bodies.

During the course of my employment with Gannett Fleming, I have assisted in the preparation of numerous depreciation studies for utility companies across various industries. I assisted in the preparation of depreciation studies for the following telephone companies: Alberta Government Telephone, Commonwealth Telephone Company, Telus, United Telephone Company of New Jersey, and United Telephone of Pennsylvania. I assisted in the preparation of depreciation studies for the following companies in the railroad industry: CSX Transportation, Union Pacific Railroad, Burlington Northern Railroad, Burlington Northern Santa Fe Railway, Amtrak, Kansas City Southern Railroad, Norfolk & Western, Southern Railway, and Norfolk Southern Corporation.

I assisted in the preparation of depreciation studies for the following organizations in the electric industry: AmerenUE, Arizona Public Service Company, UGI Utilities, Inc. - Electric Division ("UGI Electric"), Penelec, Metropolitan Edison, the City of Red Deer, Nova Scotia Power, Newfoundland Power, Owen Electric Cooperative, Bangor Hydro Electric Company, Maine Public Service Company, Michigan Electric Transmission Company, PECO, Jackson Electric Cooperative Corporation, Houston Lighting and Power, TXU, Maritime Electric, Nolin Rural Electric Cooperative, AmerenCIPS, AmerenCILCO, AmerenIP, and the City of Calgary - Electric System.

I assisted in the preparation of depreciation studies for the following gas companies: BGE, PECO, UGI Utilities, Inc. – Gas Division, North Penn Gas, PFG Gas, UGI Central Penn Gas, Inc., Equitable Gas, Centra Gas Alberta, Questar Gas, Orange and Rockland, Con Edison, Dominion East Ohio, Connecticut Natural Gas, Southern Connecticut Gas, AmerenUE, AmerenCILCO, AmerenCIPS, and AmerenIP.

In each of the above studies, I assembled and analyzed historical and simulated data, performed field reviews, developed preliminary estimates of service lives and net salvage, calculated annual depreciation, and prepared reports for submission to state public utility commissions or federal regulatory agencies.

Q. Have you previously testified on the subject of utility plant depreciation?

A. Yes. I have submitted testimony to the Kentucky Public Service Commission, the Newfoundland and Labrador Board of Commissioners of Public Utilities, the Nova Scotia Utility and Review Board, the Federal Energy Regulatory Commission, the Utah Public Service Commission, the Arizona Corporation Commission, the Missouri Public Service Commission, the Illinois Commerce Commission, the Maine Public Utilities Commission, the Maryland Public Service Commission, the New Jersey Board of Public Utilities, the New York Public Service Commission, the Connecticut Public Utilities Regulatory Authority, and the PUC.

Q. Have you received any additional education relating to utility plant depreciation?

A. Yes. I have completed the following courses conducted by Depreciation

Programs, Inc.: "Techniques of Life Analysis," "Techniques of Salvage and Depreciation Analysis," "Forecasting Life and Salvage," "Modeling and Life Analysis Using Simulation," and "Managing a Depreciation Study." In 2000, I became an instructor at the SDP's annual conference lecturing on "Salvage Concepts," "Depreciation Models," "Analyzing the Life of Real-World Utility Property – Actuarial Analysis," "Theoretical Reserve Imbalances and True-Up," and "Data Requirements for a Depreciation Study."

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. My testimony is in support of the depreciation studies conducted under my direction and supervision for the Pennsylvania gas plant of UGI Utilities, Inc. – Gas Division ("UGI Gas" or the "Company"). I was retained by the Company as a depreciation consultant. UGI Gas retained me to determine the book depreciation reserve as of September 30, 2026, to determine the annual depreciation expense to be included as an element of the cost of service, and to testify in support of those two determinations in this proceeding.

I am also a sponsoring witness for UGI Gas's depreciated original cost of gas plant in service included in rate base. My testimony will address my depreciation study, the appropriate depreciation reserve for ratemaking purposes, the original cost measure of value, and the appropriate annual depreciation expense to be included in the ratemaking cost of service as of September 30, 2026.

Q. Were you responsible for the preparation of any of the Company's responses to the Commission's filing regulations that were filed in support of the Company's general rate filing?

A. Yes. I am the responsible witness for the following items in UGI Gas Exhibit I:

Item No.	Subject
I-A-3	Description of Depreciation Methods and Factors Considered in Arriving at Estimates of Service Life and Dispersion by Account
I-A-4	Survivor Curves and Surviving Original Cost Including Related Annual and Accrued Depreciation
I-A-5	Comparison of Calculated Reserve vs. Book Reserve
I-A-6	Survivor Curves and Annual Accrual Rates
I-A-7	Cumulative Depreciated Original Cost by Vintage Year
I-A-8	Trended Original Cost Methodology
I-A-9	Spot Trended Original Cost
I-A-10	Undepreciated Original Cost
I-A-11	Cumulative Trended Depreciated Original Cost
I-A-17	Net Salvage

Q. Have you previously prepared comparable studies for UGI Gas?

A. Yes. I provided testimony on depreciation matters for the Company in the prior two UGI Penn Natural Gas (“PNG”) base rate cases at Docket No. R-2016-2580030 and Docket No. R-2008-2079660, the prior two UGI Central Penn Gas (“CPG”) base rate cases at Docket No. R-2010-2214415 and Docket No. R-2008-2079675 and the four most recent base rate case for UGI Utilities, Inc. – Gas Division at Docket No. R-2015-2518438, Docket No. R-2018-3006814, Docket No. R-2019-3015162 and Docket No. R-2021-3030218. Prior to those rate filings, I prepared exhibits for the depreciation study in UGI Gas's base rate case filed in 1995 at Docket No. R-00953297.

III. OUTLINE OF EXHIBITS C (FULLY PROJECTED), C (FUTURE) AND C (HISTORIC)

Q. Will you be sponsoring any exhibits with your direct testimony?

A. Yes, I am attaching and sponsoring the following exhibits: UGI Gas Exhibit C (Fully Projected), UGI Gas Exhibit C (Future), and UGI Gas Exhibit C (Historic). UGI Gas Exhibit C (Fully Projected) presents the summarized depreciation calculations and supporting tables related to the fully projected future test year ("FPFTY") ending September 30, 2026, for UGI Gas. UGI Gas Exhibit C (Future) presents similar summarized depreciation calculations and supporting charts and tables related to the depreciation study for the future test year ("FTY") ending September 30, 2025. UGI Gas Exhibit C (Historic) presents the summarized depreciation calculations and supporting tables related to the historic test year ("HTY") ended September 30, 2024. Each of the three exhibits is organized in a similar manner and contains information and schedules supporting the amounts applicable to each test year period. UGI Gas Exhibit C (Future) contains additional information including the supporting life tables and life table charts related to the service life estimates.

Q. Does UGI Gas Exhibit C (Fully Projected) accurately portray the results of your depreciation study as of September 30, 2026?

A. Yes.

Q. In preparing the depreciation study, did you follow generally accepted practices in the field of depreciation?

A. Yes.

Q. Please describe the contents of the depreciation study reports, UGI Gas Exhibit C (Future), and UGI Gas Exhibit C (Fully Projected).

A. The depreciation study report in UGI Gas Exhibit C (Future) consists of eight parts including charts and tables filed in the Company's most recent service life study report prepared by me and submitted in 2019. Part I, Introduction, includes statements related to the scope of and basis for the depreciation study. Part II, Estimation of Survivor Curves, presents detailed discussions of: (1) survivor curves; and (2) methods of life analysis, including an example of the retirement rate method. Part III, Service Life Considerations, presents the relevant factors considered for estimating service lives. Part IV, Calculation of Annual and Accrued Depreciation, sets forth a description of: (1) the group procedures used for calculating annual and accrued depreciation; and (2) an explanation of the manner in which net salvage was incorporated in the calculations. Part V, Results of Study, includes a description of the results and summaries of the detailed depreciation calculations as of September 30, 2025. Part VI, Service Life Statistics, presents the results of the retirement rate analyses prepared as the historical bases for the service life estimates. Part VII, Detailed Depreciation Calculations, sets forth the detailed depreciation calculations related to surviving original cost as of September 30, 2025. The detailed depreciation calculations present the annual and accrued depreciation amounts by account and vintage year. The remaining life annual accrual rate is also set forth in the tables of Part VII. Part VIII, Experienced and Estimated Net Salvage, contains the net salvage amortization of experienced and estimated net salvage for the years 2021 through 2025.

UGI Gas Exhibit C (Fully Projected) includes: a description of the scope, basis, and results of the studies; summaries of the depreciation calculations; and the detailed depreciation calculations as of September 30, 2026. The descriptions and explanations presented in UGI Gas Exhibit C (Future) are also applicable to the depreciation calculations presented in UGI Gas Exhibit C (Fully Projected). The graphs and tables related to service life presented in UGI Gas Exhibit C (Future) also support the service life estimates used in UGI Gas Exhibit C (Fully Projected) inasmuch as the estimates are the same for all three test years, i.e., HTY, FTY, and FPFTY. The service life estimates set forth in UGI Gas Exhibit C (Historic) are the same estimates as those approved in the Company's Annual Depreciation Report ("ADR") submitted to the PUC in March 2024. The pro forma depreciation expense for UGI Gas at the end of the HTY, September 30, 2024, is the sum of the three former rate districts, UGI South, UGI North, and UGI Central.

The results of the study are set forth in Part II in UGI Gas Exhibit C (Fully Projected). Table 1, pages II-3 through II-5 of UGI Gas Exhibit C (Fully

Projected), presents the estimated survivor curve, the original cost and depreciation reserve as of September 30, 2026, and the calculated annual depreciation rate and amount for each account or subaccount of Gas Plant in Service. Table 2, pages II-6 through II-7 of UGI Gas Exhibit C (Fully Projected), presents the bring-forward to September 30, 2026, of the depreciation reserve as of September 30, 2025. Table 3, pages II-8 through II-10 of UGI Gas Exhibit C (Fully Projected), presents the calculation of the book depreciation amounts for the FPFTY. Table 4, pages II-11 through II-12 of UGI Gas Exhibit C (Fully Projected), presents the experienced and estimated net salvage for fiscal years 2022 through 2026. The amortization of net salvage is based on experienced and estimated net salvage during the period October 1, 2021 through September 30, 2026. The summary tables and detailed depreciation calculations set forth in UGI Gas Exhibit C (Fully Projected) as of September 30, 2026, are organized and presented in the same manner as those presented in UGI Gas Exhibit C (Future) as of September 30, 2025.

Q. Please outline the contents of Exhibit C (Historic).

A. UGI Gas Exhibit C (Historic) is organized similarly to UGI Gas Exhibit C (Fully Projected). UGI Gas Exhibit C (Historic) includes: a description of the scope, basis, and results of the studies; summaries of the depreciation calculations; and the detailed depreciation calculations as of September 30, 2024. The service life estimates used in the HTY period were based on the survivor curve estimates set forth in the ADR submitted to the PUC in March 2024. The same survivor curve estimates were used in each of the three respective test year periods and were based on a service life study submitted to the PUC in 2023 using plant accounting data through fiscal year-end 2022. The summary tables and detailed depreciation calculations as of September 30, 2024, are organized and presented in the same manner as those as of September 30, 2026, with two exceptions. Tables 2 and 3 presented in UGI Gas Exhibit C (Fully Projected) are not necessary and, therefore, are not presented in UGI Gas Exhibit C (Historic).

IV. THE DEPRECIATION STUDY - OVERVIEW

Q. Please describe what you mean by the term "depreciation."

A. My use of the term "depreciation" is in accord with the definition set forth in the Uniform System of Accounts prescribed for Class A and Class B Natural Gas Companies. "Depreciation" refers to the loss in service value not restored by current maintenance, incurred in connection with the consumption or prospective retirement of gas plant in the course of service from causes which are known to be in current operation, against which the company is not protected by insurance. Among the causes to be given consideration are wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand, requirements of public authorities, and the exhaustion of natural resources.

In the study that I performed, which is the basis for my testimony, I used the straight line remaining life method of depreciation, with the average service life and equal life group procedures. The annual depreciation is based on a system of depreciation accounting that aims to distribute the unrecovered cost of fixed capital assets over the estimated remaining useful life of the unit, or group of assets, in a systematic and rational manner. For clarity of presentation, the detailed depreciation calculations are presented by account, vintage year and former rate district, the sum of which totals to the consolidated PA-jurisdictional UGI Gas company which excludes a small portion of the UGI gas system located in Maryland. The depreciation summary tables present the results on a total PA-jurisdictional UGI Gas basis.

Q. Is the Company's claim for annual depreciation in the current proceeding based on the same methods of depreciation that were used in the Company’s March 2024 ADR?

A. Yes, it is. For most plant accounts, the current claim for annual depreciation is based on the straight line remaining life method of depreciation, which has been used by the Company for over forty years. The depreciation methods and procedures are described further in Part II of UGI Gas Exhibit C (Future).

For General Plant Accounts 391, 393, 394, 395, 397, and 398, I used the straight line remaining life method of amortization. The annual amortization is based on amortization accounting, which distributes the unrecovered cost of fixed capital assets over the remaining amortization period selected for each account.

V. ORIGINAL COST MEASURE OF VALUE

Q. What is the original cost of gas plant to be included in rate base in this proceeding?

A. As of September 30, 2026, the original cost of gas plant in service is $6,218,576,168 as shown in column 4 of Table 1 on pages II-3 through II-5 of UGI Gas Exhibit C (Fully Projected). This amount includes $5,952,407,430 of Gas Plant and $266,168,738 of Other Utility Plant allocated to UGI Gas. Other Utility Plant is primarily comprised of plant assets included in Common Plant and Information Services ("IS"). The assets included in Common Plant and IS are assets that are shared and jointly used between UGI Gas and UGI Electric. The costs related to Common Plant and IS are allocated to UGI Gas at 89.89 percent and 84.82 percent, respectively. Also, the full cost of the buildings at the Empire Service Center ("Empire") in Wilkes Barre, PA were included in Gas Division. However, personnel of UGI Electric share portions of the buildings at that location and therefore a portion of the cost related to Empire was deducted from UGI Gas and allocated to UGI Electric for this proceeding.

VI. THE ACCRUED DEPRECIATION CLAIM

Q. Have you determined UGI Gas's accrued depreciation for ratemaking purposes as of September 30, 2026?

A. Yes. I have determined the allocated book depreciation reserve as of September 30, 2026, to be $1,618,835,540.

Q. Is the Company's claim for accrued depreciation in the current proceeding made on the same basis as has been used for over forty years?

A. Yes. The current claim for accrued depreciation is the book reserve brought forward from the book reserve set forth in the Company's financial statements and approved annually in connection with the Company's submission of its annual depreciation report each March to the Commission.

Q. How did you determine UGI Gas's allocated book depreciation reserve as of September 30, 2025?

A. The book depreciation reserve attributable to UGI Gas as of September 30, 2025, is set forth in column 5 of Table 1 of UGI Gas Exhibit C (Future). Table 2 of UGI Gas Exhibit C (Future) is an annual bring-forward of the book depreciation reserve as of September 30, 2024, using estimated accruals, retirements, salvage, and cost of removal for the twelve months from October 2024 through September 2025. The table sets forth, by plant account, the beginning book reserve balance as of September 30, 2024, the estimated reserve activity, and the ending reserve balance as of September 30, 2025. The estimated reserve activity consists of depreciation accruals (column 3), amortization of net salvage (column 4), projected retirements (column 5), projected salvage (column 6), and projected cost of removal (column 7). Table 3 of UGI Gas Exhibit C (Future) sets forth the calculation of the estimated depreciation accruals by plant account, which is carried forward to column 3 of Table 2. The book reserve as of September 30, 2024, by plant account, shown in column 2 of Table 2, was obtained from UGI Gas's books and records and are the same amounts set forth in Table 1 of Exhibit C (Historic).

Q. Please explain the manner in which you projected the depreciation accruals for the twelve months ended September 30, 2025.

A. The depreciation accruals for the twelve months ended September 30, 2025, by plant account, were estimated by applying the annual depreciation accrual rates calculated as of September 30, 2024, to the projected average 2025 plant balance. The average balance for the twelve months ended September 30, 2025, is computed in columns 2 through 7 of Table 3 and is based on the projected additions, retirements, and transfers in columns 3 through 5.

Q. With reference to Table 2, column 4, please explain what you mean by "the amortization of net salvage" and explain the manner in which you projected it.

A. The amortization of net salvage is the annual provision for recovering experienced negative net salvage. This process for recognizing net salvage in the cost of service is in accordance with Pennsylvania ratemaking practice. The amortization of net salvage is based on experienced net salvage during the preceding five-year period, October 1, 2019 through September 30, 2024.

Q. Please explain the manner in which you projected the retirements, salvage, and removal costs that are shown in columns 5, 6, and 7 of Table 2.

A. Retirements were projected by plant account by applying the average retirement ratio, expressed as a percent of additions, for the five fiscal years 2020 through 2024, to FTY and FPFTY additions for most plant accounts. For certain General Plant accounts subject to amortization accounting, retirements are recorded when a vintage is fully amortized. All units are retired per books when the age of the vintage reaches the amortization period. Therefore, all vintages that reached or exceeded the amortization period were retired during the FTY for certain General Plant accounts subject to amortization accounting. Salvage and removal costs were projected by plant account by applying the average salvage and cost of removal ratios, expressed as a percent of retirement amounts, for the five years 2020 through 2024, to the projected retirement amounts.

Q. Was the book reserve as of September 30, 2026, estimated using the same methodology?

A. Yes, it was essentially the same methodology with one minor exception. The book depreciation accruals calculated for fiscal year 2026 were based on applying the depreciation rate to average monthly plant balances for purposes of calculating the book reserve as of September 30, 2026.

VII. <u>THE ANNUAL DEPRECIATION EXPENSE CLAIM</u>

Q. Have you determined UGI Gas's annual depreciation expense to be included as an element in the cost of service for purposes of this proceeding?

A. Yes, I have. The annual depreciation expense is $167,121,205 and consists of $159,032,451 of annual accruals to recover original cost and $8,088,754 of net salvage amortization. These amounts are set forth in column 8 of Table 1 in UGI Gas Exhibit C (Fully Projected).

Q. How did you determine the annual accruals of $167,121,205?

A. The determination of annual depreciation accruals consists of two phases. In the first phase, survivor curves are estimated for each plant account or subaccount. In the second phase, the composite remaining lives and annual depreciation accruals are calculated based on the service life estimates determined in the first phase.

The determination of annual amortization amounts consists of the selection of amortization periods and the calculation of amortization amounts based on the remaining amortization period and the unrecovered cost for each vintage.

Q. Please describe the manner in which you estimated the service life characteristics for each depreciable group in the first phase of the study.

A. The service life study consisted of compiling historical data from records related to UGI Gas's gas plant; analyzing these data to obtain historical trends of survivor characteristics; obtaining supplementary information from engineering management and operating personnel concerning UGI Gas's practices and plans as they relate to plant operations; and interpreting the above data to form judgments of average service life characteristics.

Q. What historical data did you analyze for the purpose of estimating the service life characteristics of UGI Gas's gas plant?

A. The data consisted of the entries made by UGI Gas to record gas plant transactions during the period 1951 through 2022. The transactions included additions, retirements, transfers, acquisitions, and the related balances. I classified the data by depreciable group, type of transaction, the year in which the transaction took place, and the year in which the plant was installed.

Q. What method did you use to analyze these service life data?

A. I used the retirement rate method of life analysis. The retirement rate method is the most appropriate method when aged retirement data are available because it develops the average rates of retirement actually experienced during the period of study. Other methods of life analysis infer the rates of retirement based on a selected type survivor curve and were not used.

Q. Please describe the results of your use of the retirement rate method.

A. Each retirement rate analysis resulted in a life table, which, when plotted, formed an original survivor curve. Each original survivor curve, as plotted from the life table, represents the average survivor pattern experienced by the several vintage groups during the experience band studied. Inasmuch as this survivor pattern does not necessarily describe the life characteristics of the property group, interpretation of the original curves is required in order to use them as valid considerations in service life estimation. Iowa type survivor curves were used in these interpretations. The results of the retirement rate analyses are presented in Part VI of UGI Gas Exhibit C (Future).

Q. Please explain briefly what an "Iowa type survivor curve" is and how you use it in estimating service life characteristics for each depreciable group.

A. The range of survivor characteristics usually experienced by utility and industrial properties is encompassed by a system of generalized survivor curves known as the Iowa type survivor curves ("Iowa curves"). The Iowa curves were developed at the Iowa State College Engineering Experiment Station through an extensive process of observation and classification of the ages at which industrial property had been retired. Iowa curves are the accepted survivor curves for Pennsylvania, as well as the remaining 49 states, and have been for many years.

Iowa curves are used to smooth and extrapolate original survivor curves determined by the retirement rate method. The Iowa curves were used in this study to describe the forecasted rates of retirement based on the observed rates of retirement and the qualitative outlook for future retirements.

The estimated survivor curve designations for each depreciable group indicate the average service life, the family within the Iowa system, and the relative height of the mode. For example, the Iowa 35-R2 curve indicates an average service life of thirty-five years; and a Right-skewed, or R, type curve (the mode or highest frequency of retirements occurs after average life for right modal curves). It also provides a relatively low height, 2, for the mode (possible modes for R type curves range from 0.5 to 5).

Q. Did you physically observe plant and equipment in the field?

A. Yes. Field trips are conducted periodically in order to be familiar with the operation of the Company and observe representative portions of the plant. Field trips are conducted each time a service life study is performed. Service life study reports are submitted to the Commission every five years, at a minimum. UGI Gas's most recent service life study report was performed in 2023 using plant accounting data through September 30, 2022. Facilities visited during field trips generally include representative city gate stations, district regulating stations, service centers, office buildings, training centers, etc. The specific dates and locations visited during recent field trips are listed in Exhibit C (Future) in Part III. A general understanding of the function of the plant and information with respect to the reasons for past retirements and expected causes of retirements are obtained during these field trips. This knowledge and information was incorporated in the interpretation and extrapolation of the statistical analyses.

Q. Please describe the second phase of the process that you used in order to determine annual depreciation for ratemaking purposes.

A. After I estimated the service life characteristics for each depreciable group, I calculated annual depreciation accruals for each group in accordance with the straight line remaining life method, using remaining lives consistent with the average service life procedure for plant installed prior to 1982 and remaining lives consistent with the equal life group procedure for plant installed in 1982 and subsequent years. Summary tabulations of the survivor curve estimates and the annual accrual rates and amounts are set forth on Table 1 of UGI Gas Exhibit C (Historic), UGI Gas Exhibit C (Future), and UGI Gas Exhibit C (Fully Projected). The detailed tabulations of the depreciation calculations are presented in Part III of UGI Gas Exhibit C (Historic) and UGI Gas Exhibit C (Fully Projected) and in Part VII of UGI Gas Exhibit C (Future).

Q. Please briefly describe the straight line remaining life method of depreciation that you used for depreciable property.

A. The straight line remaining life method of depreciation allocates the original cost less accumulated depreciation in equal amounts to each year of remaining service life.

Q. Please briefly describe the average service life procedure that you used in conjunction with the straight line remaining life method for plant installed prior to 1982.

A. In the average service life procedure, the remaining life annual accrual for each vintage is determined by dividing future book accruals (original cost less book reserve) by the average remaining life of the vintage. The average remaining life is a directly weighted average derived from the estimated survivor curve.

Q. Please briefly describe the equal life group procedure that you used in conjunction with the straight line remaining life method for plant installed in 1982 and in later years.

A. In the equal life group procedure, the remaining life annual accrual for each vintage is determined by dividing future book accruals (original cost less book reserve) by the composite remaining life for the surviving original cost of that vintage. The composite remaining life for the vintage is derived by weighting the individual equal life group remaining lives. In the equal life group procedure, the property group is subdivided according to service life. That is, each equal life group includes the portion of the property that experiences the life of that specific group. The relative size of each equal life group is determined from the property's life dispersion curve.

Q. Please briefly describe the amortization of certain General Plant accounts.

A. General Plant Accounts 391, 393, 394, 395, 397, and 398 include a very large number of units but represent a very small percent of depreciable gas plant. Depreciation accounting is difficult for these assets, inasmuch as periodic inventories are required to properly reflect plant in service. Many utilities have changed to amortization accounting for general plant as a practical and reasonable solution that avoids significant accounting expenditures for such a small percent of plant.

In amortization accounting, units of property are capitalized in the same manner as they are in depreciation accounting. However, retirements are recorded when a vintage is fully amortized, rather than as the units are removed from service. That is, there is no dispersion of retirement. All units are retired per books when the age of the vintage reaches the amortization period.

VIII. ILLUSTRATION OF DEPRECIATION STUDY PROCEDURE

Q. Please illustrate the procedure followed in your depreciation study and the manner in which it is presented in UGI Gas Exhibit C (Future) using an account as an example.

A. I will use Account 376.1, Mains – Primarily Steel, to illustrate the manner in which the study was conducted. Account 376.1 represents 13 percent of the total depreciable gas plant. As the initial step of the service life study phase, aged plant accounting data were compiled for the years 1951 through 2022. These data have been coded in the course of UGI Gas's normal recordkeeping according to account or property group, type of transaction, year in which the transaction took place, and year in which the gas plant was placed in service. The plant additions, retirements, and other plant transactions were analyzed by the retirement rate method of life analysis.

This account includes primarily cathodically-protected, steel mains, although some bare steel mains are still in service. As detailed in UGI Gas Exhibit C (Future), the Iowa 75-R2.5 survivor curve was judged most appropriate for this account and is the survivor curve used for this filing. The 75-R2.5 is a reasonably good fit of the company's historical plant accounting data, consistent with engineering outlook and within the typical range of service lives used by other gas companies for steel mains. The original life table for the 1951-2022 experience band is set forth on pages VI-22 through VI-27.

The calculation of annual depreciation, the second phase, for the original cost of steel mains in service as of September 30, 2025, is presented by vintage in Part VII on pages VII-37 through VII-45 of UGI Gas Exhibit C (Future) for Gas Plant in Service. The detailed depreciation calculations as of September 30, 2026, are presented in Part III of Exhibit C (Fully Projected). The tabular presentations of the detailed depreciation calculations in Part VII of Exhibit C (Future) are similar in kind to those set forth in Part III of Exhibit C (Fully Projected). The expectancy and average life derived from the estimated survivor curve for each vintage were used to calculate the accrued depreciation by the average service life procedure for 1981 and prior vintages.

The accrued depreciation for vintages subsequent to 1981 was calculated by the equal life group procedure using the Iowa 75-R2.5 survivor curve. In the calculation, the surviving cost in each vintage was further subdivided, through the use of a computer program, into depreciable groups according to the expected service lives as defined by the Iowa 75-R2.5 survivor curve. The accrued depreciation was derived for each equal life group, based on its service life, and the totals shown for the vintages are the summations of the individually derived amounts.

The book reserve was allocated to vintages based on the calculated accrued depreciation. The remaining lives of the vintages were based on the Iowa 75-R2.5 survivor curve, the attained age, and the same group procedures as were used to calculate accrued depreciation. The future book accruals (original cost less allocated book reserve) were divided by the remaining lives to derive the annual depreciation accruals by vintage.

The total depreciation accrual on page VII-45 of UGI Gas Exhibit C (Future) was brought forward to column 8 of Table 1 on page V-4 of the exhibit and divided by the total original cost in column 4 in order to calculate the annual depreciation accrual rate in column 7. A similar process was used for the FPFTY.

Q. Is the procedure you described for Account 376.1 typical of that followed for most of the plant investment?

A. Yes, it is, inasmuch as the straight line method, the average service life, and the equal life group procedures were used for most of the depreciable plant.

Q. Please illustrate the procedure followed for the amortization of certain General Plant accounts and the manner in which it is presented in UGI Gas Exhibit C (Future) using an account as an example.

A. I will use Account 394, Tools, Shop and Garage Equipment, to illustrate the amortization procedure. As the initial step of the amortization procedure, an amortization period of 20 years was selected based on the period during which such equipment renders most of its service, the amortization periods used by other utilities, and the service life estimate previously used for depreciation accounting.

The calculation of the annual amortization as of September 30, 2025, is presented by vintage in Part VII on pages VII-145 and VII-146 of UGI Gas Exhibit C (Future). The calculated accrued amortization is based on the ratio of the vintage's age to the amortization period. The book reserve for vintages older than the amortization period was set equal to the original cost. The remaining book reserve was allocated to vintages based on the calculated accrued depreciation. The future book accruals or amortizations (original cost less assigned or allocated book reserve) were divided by the remaining amortization period to derive the annual amortizations by vintage.

The total amortization on page VII-146 of UGI Gas Exhibit C (Future) was brought forward to column 8 of Table 1 on page V-5 of UGI Gas Exhibit C (Future). A similar process was performed for UGI Gas Exhibit C (Fully Projected) and UGI Gas Exhibit C (Historic). That is, the calculation of the annual amortization related to the original cost of Tools, Shop and Garage Equipment in service as of September 30, 2026, is presented by vintage on pages III-143 and III-144 of UGI Gas Exhibit C (Fully Projected) and summarized in Table 1 on page II-4.

Q. Briefly explain the methods used for the remaining portion of the depreciable plant.

A. The life span approach was applied to major structures in Account 390. The life span approach was used for groups such as buildings in which concurrent retirement of all property in the group is expected. The life span of both the original installation and subsequent additions is the number of years between installation and final retirement of the group. The complete details, by vintage, of the accrued depreciation and remaining life accrual calculations are set forth for each structure in Part III of UGI Gas Exhibit C (Historic) and UGI Gas Exhibit C (Fully Projected) and in Part VII of UGI Gas Exhibit C (Future).

IX. THE NET SALVAGE AMORTIZATION CLAIM

Q. Please briefly describe the accounting treatment regarding net salvage for public utilities operating in Pennsylvania.

A. In accordance with the Uniform System of Accounts and the rules for recovery of net salvage established by the Pennsylvania Superior Court in *Penn Sheraton Hotel v. Pa. P.U.C.*, 198 Pa. Super. 618, 184 A.2d 324 (1962), net salvage is charged to the depreciation reserve and is amortized over a five-year period beginning with the year after net salvage is actually incurred. These accounting procedures were affirmed by the Commission in CPG's (formerly PPL Gas Utilities Corporation ("PPL Gas")) 2006 rate filing (Docket No. R-00061398) and have been utilized by UGI Gas in their rate cases ever since. This procedure is consistent with how other Pennsylvania public utilities account for net salvage and is the method used in preparing the Company's ADR submitted each year to the Commission.

Q. Earlier in your testimony you indicated that UGI Gas's annual depreciation expense consists, in part, of $8,088,754 of net salvage amortization. How did you determine that amount?

A. The $8,088,754 is the result of determining the five-year average of net salvage experienced and estimated during the period of October 1, 2021 through September 30, 2026. Net salvage is defined in the Uniform System of Accounts as gross salvage less cost of removal. For most gas utilities, including UGI Gas, cost of removal exceeds gross salvage resulting in negative net salvage. Negative net salvage is recorded to the depreciation reserve as a debit, which reduces the depreciation reserve. Charges related to the negative net salvage amortization are recorded to the depreciation reserve as a credit in the five years subsequent to the initial recording of the negative net salvage amount. Therefore, the negative net salvage amount will have been fully amortized after five years and the net effect on the depreciation reserve is zero. Detailed data related to the experienced and estimated cost of removal and salvage are presented in Part VIII of UGI Gas Exhibit C (Future) and Part IV of UGI Gas Exhibit C (Fully Projected).

Q. Do you have any other comments on the other items which you are sponsoring in this proceeding?

A. Yes. The above testimony does not describe the responses to filing requirements set forth in Items I-A-5, I-A-6, and I-A-7. In general, these responses are self-explanatory. The response to I-A-5 is a comparison of the actual and projected book depreciation reserve with the calculated accrued depreciation as of the end of the HTY, FTY, and FPFTY, respectively. The response to I-A-6 presents the survivor curves used in the most recent general rate proceeding and the annual accrual rates that resulted from the use of these curves. The response to I-A-7 is the cumulative depreciated original cost by installation year as of the end of the test years. The amounts requested in response to I-A-7 are set forth in UGI Gas Exhibit C (Historic), UGI Gas Exhibit C (Future) and UGI Gas Exhibit C (Fully Projected) in the section titled "Cumulative Depreciated Original Cost."

Q. Does this conclude your direct testimony?

A. Yes, it does.

UGI GAS STATEMENT NO. 5

VICKY A. SCHAPPELL

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Docket No. R-2024-3052716

UGI Utilities, Inc. – Gas Division

Statement No. 5

Direct Testimony of
Vicky A. Schappell

Topics Addressed: Capital Planning

Dated: January 27, 2025

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Vicky A. Schappell. My business address is 1 UGI Drive, Denver, Pennsylvania 17517.

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

A. I am employed as a Senior Manager, Capital Planning by UGI Utilities, Inc. ("UGI"). UGI is a wholly-owned subsidiary of UGI Corporation ("UGI Corp."). UGI has two operating divisions, the Electric Division ("UGI Electric") and the Gas Division ("UGI Gas" or the "Company"), each of which is a public utility regulated by the Pennsylvania Public Utility Commission ("Commission" or "PUC").

Q. Please describe your educational background and work experience.

A. They are set forth in my resume attached as UGI Gas Exhibit VAS-1 to my testimony.

Q. What are your responsibilities as Senior Manager?

A. As Senior Manager, I supervise a team of Analysts responsible for the preparation of the annual capital budgets for UGI Gas and UGI Electric. I am responsible for obtaining budget inputs from various departments including Engineering, Operations, Corrosion, Marketing, Information Technology ("IT"), and the Building and Grounds Departments. I collaborate with the Vice President of Operations, the Vice President of Global Engineering, the Director of Engineering Design, the Director Customer Development, the Director of Pipeline System Planning and Optimization, the Director Financial Planning and Analysis and Senior Engineering Managers to monitor annual capital budget performance and develop strategies to limit variances in capital installations and spending. I also work closely with the President of UGI in developing the overall capital spend strategy. In this role, I have also prepared testimony, supporting exhibits and schedules, and sponsored responses to discovery requests for past base rate cases. Also, I am responsible for preparing UGI Gas's Annual Asset Optimization Plan. Additionally, I had an integral role in developing an expanded capital spending monitoring process necessary for managing the Company's accelerated capital investments programs.

Q. Have you previously presented testimony in proceedings before a regulatory agency?

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

Q. What is the purpose of your testimony?

A. My testimony will address the capital planning process used by UGI Gas which supports the plant in service expenditures included in the proposed rates in this proceeding, specifically as related to plant additions for the future test year ending September 30, 2025 ("FTY") and the fully projected future test year ending September 30, 2026 ("FPFTY" or "FY2026").

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes, in addition to UGI Gas Exhibit VAS-1, I am sponsoring UGI Gas Exhibit VAS-2. I am also sponsoring certain responses to the Commission's standard filing requirements as indicated on the master list accompanying this filing.

II. CAPITAL PLANNING

Q. What is the total plant in service budget for UGI Gas for the FPFTY that is reflected in the proposed rates?

A. The total budgeted plant additions for UGI Gas for the FPFTY is $462,899,000.

Q. What are the specific project categories included in the capital budget for UGI Gas?

A. UGI Gas has four main categories that make up its capital budgets: (1) replacement and betterment infrastructure; (2) new business; (3) IT; and (4) other capital spending. I will describe each of these categories and the projects associated with them, as well as the total dollars attributable to each category below.

Q. What process does UGI Gas use to develop its capital budget?

A. UGI Gas's capital budget starts by identifying the four critical areas where the Company must make capital investments in order to maintain safe and reliable service to customers. For each of these budget areas, the Company then identifies all of the projects or categories of project that are planned to occur in each fiscal year of a two-year forecast. Once those projects are determined, the Company identifies the FERC accounting treatment for each project. In this case, the Company presents them as part of the budgeted plant additions in Exhibit A, Schedule C-2. The process used to develop Exhibit A is further described in the direct testimony of Tracy A. Hazenstab (UGI Gas Statement No. 2).

Q. How does Schedule C-2 show plant additions?

A. Schedule C-2 is an accounting presentation based on FERC accounts. For purposes of developing Schedule C-2, budgeted dollars in each budget category are broken out by the

FERC account numbers that drive the accounting for depreciation. Schedule C-2 is split between Distribution Plant and General and Common plant. The General and Common Plant includes only the distribution portion of the plant additions for UGI Gas.

Q. Have you prepared an exhibit that shows UGI Gas's plant additions broken down by budget project categories?

A. Yes, I have. UGI Gas Exhibit VAS-2 reflects the Company's plant additions broken out by the different project categories for the five-year period from fiscal year 2022 through fiscal year 2026. The exhibit splits the four budget project categories between Distribution Plant and General and Common plant, consistent with the categories on Schedule C-2. In addition, UGI Gas Exhibit VAS-2 shows a historical comparison of the total budgeted plant placed in service versus actual plant placed in service additions for the three-year period from fiscal year 2022 through fiscal year 2024. I will describe how the Company's performance history supports the reasonableness of the Company's FTY and FPFTY plant additions in greater detail later in my testimony.

Q. Please comment on the presentations shown in UGI Gas Exhibit VAS-2 and Schedule C-2.

A. While the forecasted total plant in service figures match for the FTY and the FPFTY, there is a difference in the presentation of how UGI Gas Exhibit VAS-2 and Schedule C-2 present plant additions, and it is important to understand how these budget presentations align. Specifically, UGI Gas Exhibit VAS-2 shows how the Company's four individual budget categories constitute the Company's total Plant Additions and how they map into the Distribution and General and Common Plant on Schedule C-2. Exhibit VAS-2 shows that three of the four budget categories fall into both of the plant categories (i.e., Distribution Plant and General & Common Plant) when describing the budget by FERC accounts. IT projects are the only budget category where projects fall exclusively into one FERC plant account – General and Common plant – when recorded for accounting purposes.

Q. Why is it important to understand the relationship between the Company's budgeting process and the reflection of the budget in Schedule C-2?

A. When the Company plans for future plant additions, the Company utilizes a project based build-up and does not directly budget using the FERC accounts, as work streams do not directly correlate to the format shown in Schedule C-2. When the Company budgets and then executes on its budget, it first looks at the total for the budget category, and then examines its overall budgeted projects on a total additions basis, because its operations and work streams are divided in the same manner to achieve core utility objectives. Ultimately, the Company's operations manage to the total overall budget. As a result of this process, it is more reasonable to review the Distribution and General and Common plant levels together when considering how the Company performed to its budget, rather than the accounting distinction set forth in Schedule C-2. Thus, to properly compare historical budgeted plant additions to actuals for ratemaking purposes, the Distribution and General and Common plant additions should be reviewed in total.

Q. Turning to the capital budget categories, what are replacement and betterment projects?

A. Replacement and betterment ("R&B") projects improve or replace or repair existing infrastructure and include, but are not limited to, leak remediation, pipe relocations, material upgrades, service renewals, reliability improvements, and metering and regulation upgrades.

Q. Please describe the prioritization process that is used to evaluate R&B projects.

A. Projects are prioritized for inclusion in the budget according to the condition of, and risks associated with, existing assets, including those factors affecting safety and reliability. In determining the condition of an existing asset, the Company considers various criteria including, but not limited to the replacement of cast iron and bare steel pipe, which are more susceptible to failure from corrosion, cracks, and leakage (as compared to other pipe materials). UGI Gas has also committed to replacing identified priority plastic pipe, in addition to cast iron and bare steel pipe as defined in its Third Long Term Infrastructure Improvement Plan ("LTIIP") as discussed below. Risk evaluations for mains are based on numerous factors, including condition, age, coating, type of ground cover, geographical proximity to structures and prior leak and/or break history. UGI Gas reviews these factors annually to identify the highest risk pipe segments and prioritize them for replacement.[1] Specifically, commercial risk evaluation software is used in concert with a team of Subject

[1] When replacing mains, the Company also replaces associated distribution equipment, including service lines, as well as installing or replacing safety and monitoring devices (excess flow valves), meters, risers, and meter bars. Additionally, indoor meters are relocated to an outside location, except in certain circumstances. Similarly, regulator stations and service regulators are reviewed and prioritized for replacement based on nearby main replacement projects or required upgrades due to the updated equipment installed as part of the main replacement program.

Matter Experts to evaluate, prioritize, and bundle replacement projects. Furthermore, UGI Gas's Distribution Integrity Management Program ("DIMP") and Transmission Integrity Management Program ("TIMP") provide a detailed listing and weighting of factors considered in the risk-based evaluation, which may cause specific projects to be reprioritized for replacement on a more accelerated basis. This hybrid approach targets the highest risk mains first, while also balancing the need to maximize the efficient deployment of capital and resources.

UGI Gas's prioritization of projects for its capital budgets also is consistent with its LTIIP, which is described in more detail in the direct testimony of UGI Gas witness, Christopher R. Brown (UGI Gas Statement No. 9). LTIIP replacement investments are identified and prioritized on a risk basis in accordance with UGI Gas's DIMP.

Q. How does UGI Gas determine which R&B projects are included in the capital budget for a given year?

A. UGI Gas's LTIIP guides the formulation of the overall R&B capital budget. Within the various categories of the LTIIP, R&B projects are selected and prioritized according to the risk-based evaluation process that I described above. The total anticipated budgeted plant additions associated with R&B projects in the FPFTY is $327,765,000 of which $327,669,000 is included in Distribution plant additions and $96,000 is included in General and Common plant Additions.

Q. What are new business projects?

A. New business projects provide new or upgraded gas service to customers and may involve the installation of new gas mains and services to support conversions to natural gas service (from other heating sources).

Q. Please describe how the new business infrastructure projects are selected for inclusion in the capital budget.

A. The new business portion of the capital budget is developed according to forecasts of new business opportunities, projections of customer conversions, and plans for new construction and development projects. The total anticipated budgeted plant additions associated with new business projects in the FPFTY is $68,465,000; these additions are included in Distribution plant additions.

Q. What are IT projects?

A. IT projects enhance the Company's IT systems in a number of ways. These projects involve hardware and software applications which improve the Company's processes and methods across a wide range of operational concerns or needs, such as capital project management, cybersecurity, customer communications, billing as well as other areas. Further, these projects facilitate the Company's ability to enter, store, retrieve, and send data and information related to such projects. Specific large IT projects reflected in the FPFTY include Field Services Management ("FSM") and Extended Asset Accounting ("EAA") as further described below. The total anticipated budgeted plant additions associated with IT projects in the FPFTY is $36,394,000 and these projects are included in General and Common plant additions.

Q. Please describe the prioritization process used to evaluate IT projects.

A. IT projects are prioritized for inclusion in the budget based on identified business needs. UGI relies on an IT Prioritization Committee to develop a prioritized budget based on overall business impact, availability of system support, and resource availability. Examples of IT projects include the Pipeline Risk Management – TIMP project that went into service in September 2024. This project focused on standardizing a tool to maintain compliance and mitigate asset risk.

Q. What are Other capital projects?

A. Other capital projects include building-related projects, corrosion control projects, capital tool purchases, and fleet purchases. Building-related projects consist of building and land purchases, building improvements/renovations, and the purchase of furniture. Corrosion control projects include upgrades and replacements of cathodic protection systems for mains. Capital tool projects encompass new tool purchases for field use during capital projects. These tools include tapping and stopping equipment, safety tools, and leak detection equipment. Fleet purchases are needed to maintain a reliable mode of transportation for field employees along with certain specialty equipment required to perform daily functions. These acquisitions include SUVs, pickup trucks, cargo vans, service body trucks, compressor crew trucks, vacuum trucks, aerial lift trucks, dump trucks, backhoes, excavators, forklifts, and equipment trailers for backhoes and excavators. The total anticipated budgeted plant additions associated with other projects in the FPFTY is $30,275,000 of which $9,750,000 is included in Distribution plant additions and $20,525,000 is included in General and Common plant additions (UGI Gas Exhibit VAS-2).

Q. Please describe the prioritization process used to evaluate Other capital projects.

A. The prioritization process for Other capital projects is specific to the need being addressed. Building-related projects are prioritized for inclusion in the budget based on safety, security, regulatory, or financial and strategic needs. Regulatory driven projects may originate from compliance requirements or certain audit observations. Physical security audits may prompt the installation of fencing, gates and access controls. Corrosion control projects involving coated steel main replacements are prioritized for inclusion in the budget according to requirements set forth in the Federal Gas Safety Regulations (49 C.F.R. Part 192).[2] Corrosion control projects also may depend on unrepairable leakages or emerging main issues. Capital tool projects are prioritized for inclusion in the budget according to the useful life of the existing assets. Fleet purchases are prioritized for inclusion in the budget based on age, condition, maintenance costs, and mileage of the existing asset.

[2] Transmission lines may be replaced due to corrosion that affects wall thickness pursuant to 49 C.F.R. § 192.485. Additionally, portions of transmission lines (with localized corrosion pitting) may be replaced pursuant to 49 C.F.R. § 192.485. Similarly, distribution lines with corrosion (or portions thereof with localized pitting corrosion) may be replaced pursuant to 49 C.F.R. § 192.487. Lines also may need to be replaced if they lack cathodic protection systems, as detailed in 49 C.F.R. § 192.463.

Q. Please describe the FSM project.

A. The FPFTY includes costs related to the FSM project, which will enhance the efficiency of planning, scheduling, dispatching of field work via mobile field interface, integrating directly with UGI Gas's existing UNITE technologies. Scheduling and dispatching of short-interval work is currently done centrally, while long-interval work is managed by local operating districts. This existing process can result in inefficiencies with planning, scheduling, and resource utilization. UGI Gas will implement this FSM solution as the first step towards a large Enterprise Asset Management System ("EAM"), which will include (1) main replacement, distribution system reinforcement, and line extension projects; (2) service installations; (3) new and upgraded regulator stations; (4) inspections, maintenance, and other repairs; (5) paving and restoration; and (6) facility location and damage prevention. As a precursor to the broader EAM implementation, this FSM project will encompass the scheduling, dispatching and field completion of planned and unplanned work using SAP Service & Asset Manager ("SSAM") and SAP Field Service Management ("SAP FSM"). SSAM and SAP FSM will replace the legacy scheduling, dispatching, and mobility system Accruent MobileUp for existing types of field work. This includes short-interval work from the Company's existing Customer Resources and Billing solution ("SAP CR&B") as well as non-customer long and short-interval work from UGI's legacy work management system Distribution Operational Job Management ("DOJM"). The non-customer short interval work includes valve inspections and regulator station inspections. The non-customer long interval work includes main projects, scheduled leak repairs and installing new main and services. The legacy Accruent MobileUp mobility system has reached its end of life and FSM is the first step towards the EAM, which will replace and enhance the functionality from DOJM. SSAM is a mobile app running in the cloud that enables field technicians to access, capture and work with asset and operational data on their devices.

Q. Please describe the project timing of the FSM project.

A. The Company began to perform analysis and requirement planning in 2022 as part of its previous efforts under the UNITE initiatives. UGI Gas has spent approximately $1.7 million on the requirement efforts to date. The requirement phase of the project is currently expected to be completed mid-February 2025. The Company is also expecting to have the final pricing and Request for Proposal ("RFP") responses in March 2025. FSM approval by the UGI Corporation Board is anticipated to occur in May 2025 with a planned in-service date of July 2026.

Q. What costs are included in the FPFTY for the FSM?

A. The FSM project total costs to UGI is approximately $23 million. UGI Gas's portion of these costs is approximately $19.5 million. The total costs are included in the IT budget category. The costs are also categorized as General and Common Plant additions.

Q. Please describe the EAA project.

A. This project will deliver a consolidated SAP Enterprise Resource Planning ("ERP") solution as well as implementing an SAP certified add-on for asset accounting known as "Finance 4U EAA" tool to support Acquire-to-Retire ("A2R") business processes and delivering a capital planning business process through SAP Analytics Cloud ("SAC").

UGI currently leverages SAP ERP S/4 HANA and a hosted, interfaced instance of PowerPlan as its accounting and capital budgeting applications. The planned project will implement Finance 4U EAA system as the core, consolidated fixed asset solution and SAC for capital budgeting. EAA is an SAP Certified Integration, built on the HANA S/4 platform. It utilizes all the existing cost collectors built in the SAP ERP. The SAC Capital Budgeting solution is a modern cloud-based tool that leverages features that look, feel, and behave like excel. The overall user experience will also be streamlined across the ERP and SAC, allowing for system functionality to be triggered centrally from SAP.

EAA was approved in August 2024, an official kick off occurred in October 2024, and it has a planned in-service date of October 2025.

Q. Does EAA replace a current solution?

A. This application is being proposed to replace the existing PowerPlan product. This project will align the accounting solutions of UGI Gas and should be completed as a prerequisite to EAM, which will introduce a new way of integrating capital projects to fixed asset records with the intention to build a seamless hand off between the construction project and the fixed asset record. This requires that the base structure of the fixed asset system be in place and stable prior to any EAM implementation. Due to current system limitation, most business processes are manual. Retiring PowerPlan enables a more streamlined application.

PowerPlan currently relies on a series of complex interfaces; eliminating these interfaces reduces overall solution risk and complexity. PowerPlan is not a natively integrated system. To operate PowerPlan as a sub-system of SAP, UGI employs a collection of replicated objects through a secondary database that is updated in real time. PowerPlan uses a set of interfaces, running on a schedule or ad-hoc basis, to process the replicated data. Transactions for fixed assets and depreciation are created and applied to accounts defined within PowerPlan. These transactions are accumulated and posted back to SAP using a series of interfaces with a combination of PowerPlan and SAP processing techniques. While this process is effective, it is not in real time. It is generally reliable integration, but there are performance issues and failure points. It is not unusual for systems to experience minor out of balance issues.

Q. What costs are included in the FPFTY for the EAA?

A. The EAA project total cost to UGI is approximately $14 million. UGI Gas's portion of these costs is approximately $11.2 million. The total costs are included in the IT budget category. The costs are also categorized as General and Common Plant additions.

Q. Please discuss some of the key drivers which support the increase in UGI Gas's FPFTY plant additions as compared to the HTY.

A. The planned capital for FY2026 includes cost increases in R&B associated with complexity, location and size of the remaining cast iron and bare steel replacement projects as well as general resource cost increases. It also includes priority plastic pipe as Distribution System Improvement Charge-eligible property that will be replaced through the LTIIP on an accelerated basis to reduce associated leaks and overall risks on the Company's distribution system, as defined in the Company's Third LTIIP at Docket No. P-2024-3050769. The Company's total planned 2026 replacement miles will be 60-70 miles with such increase corresponding to an increase in the planned plant additions. The Company replaced approximately 51 miles of cast iron, bare steel and wrought iron main in FY2024.

Q. How can UGI Gas's actual in-service plant additions be compared to budgeted in service plant additions historically in order to demonstrate Company performance?

A. As shown in UGI Gas Exhibit VAS-2, over the past three years, the Company's total budgeted in service plant additions were $1,274,869,000, while the total actual in-service plant additions were $1,295,540,000. Thus, UGI Gas's plant in service performance as viewed by variance to budget can be shown to be over 1.6% ($1,295,540,000/$1,274,869,000) over the three-year period. This close correlation is indicative of the Company's ability to perform in developing a plan for plant additions and reliably executing to that plan. Importantly, the Company manages its budgets in total and as any budget changes are made dollars are reallocated between the four main budget categories, described above, such that the total plant additions align as close as possible to the total plant addition actuals.

Q. What process does UGI Gas utilize when developing its capital budgets?

A. During the Company's annual capital budget process, which occurs during the summer/fall, a two-year budget is prepared. The first year of the capital budget is the basis for the FTY. The second year is a preliminary budget and is the basis for the FPFTY. During the budget process, project managers estimate the total project costs and budgeted in-service dates at the project level based on the current data available. These estimated in-service dates are the basis for the budgeted plant additions as further discussed in the testimony of UGI Gas witness Vivian K. Ressler (UGI Gas Statement No. 3). As the Company transitions from one budget year to the next, and the preliminary budget year becomes the active budget year, the Company makes certain adjustments to its budget for known and measurable changes in the assumptions about operating conditions that supported the preliminary budget. For example, the Company adjusts its project lists on an annual basis based on operational demands, such as the need to reprioritize projects based on emerging service needs or unanticipated equipment condition changes.

Q. Did you calculate the percentage of plant additions accomplished by the Company during the three-year period reflected in UGI Gas Exhibit VAS-2?

A. Yes, I did. Exhibit VAS-2 compares plant additions placed in service (i.e., actuals) to the budgeted plant additions between 2022 and 2024. The exhibit provides these figures by the four above-described budget categories. It also separates them by distribution plant and general and common plant. Taken together, the distribution and general and common plant categories calculate total Plant Additions. Finally, the exhibit calculates plant in service as a percent of budget for each year and over the three-year period by dividing actuals by budgets.

Specifically, during this three-year period, the Company's plant additions were 101.6% of its budget. The percentage of plant additions is calculated by dividing the actual plant additions by the budgeted plant additions (Actual / Forecast). Thus, the Company has demonstrated that over a three-year period it has a documented history of meeting or exceeding its budgeted plant additions. This close correlation between budgeted and actual plant placed in service over a three-year period shows that UGI Gas's budget process is very effective at identifying its required plant additions, and supports the Company's claimed level of plant in service in this case.

IV. <u>CONCLUSION</u>

Q. Does this conclude your direct testimony?

A. Yes, it does.

UGI GAS

EXHIBIT VAS-1

Vicky A. Schappell

Senior Manager – Capital Planning

WORK EXPERIENCE

UGI Utilities, Inc. (Denver, PA)

Senior Manager – Capital Planning	May 2024-Present
Principal Analyst - Capital Planning	January 2020-May 2024
Senior Analyst - Capital Planning	April 2018-January 2020
Senior Supervisor Plant Accounting	December 2014-April 2018
Senior Analyst - General Ledger	September 2011-December 2014
Analyst II – General Ledger	September 2008-September 2011

Teleflex Medical (Reading, PA)

Accounting Supervisor	December 2007-September 2008
Senior Accountant – Financial Reporting	March 2003-December 2007
Staff Accountant – Financial Reporting	October 1999-March 2003

Heffler, Radetich & Saitta, LLP (Philadelphia, PA)

Auditor	May 1997-October 1999

Education

B.S. in Accounting, Shippensburg University,
1997

Previous Testimony

UGI Gas Base Rate Case	Docket No. R-2019-3015162
UGI Gas Base Rate Case	Docket No. R-2021-3030218
UGI Electric Base Rate Case	Docket No. R-2022-3037368

UGI GAS

EXHIBIT VAS-2

UGI UTILITIES, INC. - GAS DIVISION
Plant Additions Placed in Service Compared to Budget
$ amounts in '000s

Description	Budget 2024	Actual 2024	Budget 2023	Actual 2023	Budget 2022	Actual 2022	3 Year Total Budget	3 Year Total Actual
Natural Gas Production								
Replacement and Betterment							-	-
Subtotal Natural Gas Production	-	-	-	-	-	-	-	-
Transmission Plant								
Replacement and Betterment		(3)		(241)		(53)	-	(297)
Growth						(239)	-	(239)
Other				(71)		90	-	19
Subtotal Transmission Plant	-	(3)	-	(313)	-	(202)	-	(517)
Distribution								
Replacement and Betterment	259,662	243,367	317,228	302,171	281,270	293,795	858,161	839,333
Growth	67,452	68,926	67,961	92,260	69,493	77,289	204,906	238,475
Other	4,750	5,202	6,100	6,896	7,248	5,573	18,097	17,671
IT							-	-
Subtotal Distribution	331,864	317,496	391,289	401,327	358,011	376,657	1,081,164	1,095,479
General and Common Plant								
Replacement and Betterment	554	838	341	255	178	339	1,074	1,432
Growth							-	-
Other	33,504	34,384	52,960	48,386	26,375	30,937	112,839	113,708
IT	15,539	23,630	50,414	46,717	13,839	15,091	79,793	85,438
Subtotal General and Common Plant	49,598	58,852	103,715	95,358	40,392	46,368	193,705	200,578
Total Plant Additions	381,462	376,346	495,003	496,372	398,404	422,823	1,274,869	1,295,540
	(1)	**(2)**	**(1)**	**(2)**	**(1)**	**(2)**	**(1)**	**(2)**
Plant Additions Placed in Service as % of Budget	**(2) / (1)**	**98.7%**	**(2) / (1)**	**100.3%**	**(2) / (1)**	**106.1%**	**(2) / (1)**	**101.6%**

Forecasted Performance

Description	FPFTY Budget 2026	FTY Budget 2025
Distribution		
Replacement and Betterment	327,669	315,140
Growth	68,465	67,447
Other	9,750	6,731
Subtotal Distribution	405,885	389,317
General and Common Plant		
Replacement and Betterment	96	377
Growth	-	-
Other	20,525	17,132
IT	36,394	12,665
Subtotal General and Common Plant	57,014	30,174
Total Forecasted Plant Additions	462,899	419,491