FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

In Reply Refer To:
Office of Enforcement
Docket No. FA20-3-000

January 14, 2021

UGI Utilities, Inc.
Attention: Kent D. Murphy
Group Counsel, Energy and Regulation
460 North Gulph Road
King of Prussia, PA 19406

Dear Mr. Murphy:

1. The Division of Audits and Accounting (DAA) within the Office of Enforcement (OE) of the Federal Energy Regulatory Commission (Commission) has completed an audit of UGI Utilities, Inc. (UGIU). The audit covered the period January 1, 2017 through July 29, 2020.

2. The audit evaluated UGIU's compliance with: (1) the tariff requirements governing its FERC jurisdictional rates, including its transmission formula rate mechanism as provided in Attachment H-8C of the PJM Interconnection, L.L.C. Open Access Transmission Tariff; (2) accounting requirements of the Uniform System of Accounts Prescribed for Public Utilities and Licensees under 18 C.F.R. Part 101; (3) reporting requirements of the FERC Form No. 1, Annual Report of Major Electric Utilities, Licensees and Others, under 18 C.F.R. § 141.1; and (4) the requirements in Preservation of Records of Public Utilities and Licensees under 18 C.F.R. Part 125. The enclosed audit report contains nine findings and 50 recommendations that require UGIU to take corrective action, and one other matter.

3. On January 8, 2021, you notified DAA that UGIU does not contest the nine findings and 50 recommendations, and will submit within 30 days of the issuance of the audit report a plan for implementing the audit recommendations. A verbatim copy of your response is included as Section VI of the accompanying audit report. I hereby approve the audit report.

4. UGIU should submit its implementation plan to comply with the recommendations within 30 days of this letter order. UGIU should make quarterly submissions to DAA describing the progress made to comply with the recommendations, including the completion date for each corrective action. As directed by the audit report, these

submissions should be made no later than 30 days after the end of each calendar quarter, beginning with the first quarter after this audit report is issued, and continuing until all the corrective actions are completed.

5. The Commission delegated the authority to act on this matter to the Director of OE under 18 C.F.R. § 375.311. This letter order constitutes final agency action. UGIU may file a request for rehearing with the Commission within 30 days of the date of this order under 18 C.F.R. § 385.713.

6. This letter order is without prejudice to the Commission's right to require hereafter any adjustments it may consider proper from additional information that may come to its attention. In addition, any instance of noncompliance not addressed herein or that may occur in the future may also be subject to investigation and appropriate remedies.

7. I appreciate the courtesies extended to the auditors. If you have any questions, please contact Kristen Fleet, Acting Director and Chief Accountant, Division of Audits and Accounting at (202) 502-8063.

Sincerely,

Larry R. Parkinson

Larry R. Parkinson
Director
Office of Enforcement

Enclosure

Federal Energy Regulatory Commission
Office of Enforcement
Division of Audits and Accounting

AUDIT REPORT

Audit of UGI Utilities, Inc.'s Compliance with:

- Tariff requirements governing its FERC jurisdictional rates;
- The accounting requirements of the Uniform System of Accounts Prescribed for Public Utilities and Licensees;
- The reporting requirements of the FERC Form No. 1; and
- The requirements in Preservation of Records of Public Utilities and Licensees.

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I. Executive Summary

A. Overview

The Division of Audits and Accounting (DAA) within the Office of Enforcement of the Federal Energy Regulatory Commission (Commission) has completed an audit of UGI Utilities, Inc. (UGIU or Company). The audit evaluated UGIU's compliance with: (1) the tariff requirements governing its FERC jurisdictional rates, including its transmission formula rate mechanism as provided in Attachment H-8C of the PJM Interconnection, L.L.C. (PJM) Open Access Transmission Tariff (OATT); (2) accounting requirements of the Uniform System of Accounts Prescribed for Public Utilities and Licensees (USofA) under 18 C.F.R. Part 101; (3) reporting requirements of the FERC Form No. 1, Annual Report of Major Electric Utilities, Licensees and Others, under 18 C.F.R. § 141.1; and (4) the requirements in Preservation of Records of Public Utilities and Licensees under 18 C.F.R. Part 125. The audit covered the period from January 1, 2017 through July 29, 2020.

B. UGI Utilities, Inc. (UGIU)

UGIU is a wholly owned subsidiary of UGI Corporation. UGIU operates a regulated natural gas distribution business and an electric utility business. UGIU's natural gas distribution business, prior to October 1, 2018, was comprised of UGIU and two separate, wholly owned natural gas distribution utility subsidiaries, UGI Penn Natural Gas, Inc. (PNG), and UGI Central Penn Gas, Inc. (CPG). UGIU, PNG, and CPG were consolidated by a merger effective October 1, 2018, with UGIU as the surviving entity.[1] UGIU's gas utility business serves nearly 655,000 customers in 44 eastern and central Pennsylvania counties and one Maryland county. UGIU's electric utility business provides service to more than 62,000 customers in Luzerne and Wyoming counties in northeastern Pennsylvania and owns approximately 2,500 miles of transmission and distribution lines and 14 substations. In 2018, UGIU reported approximately $1.1 billion in total revenues from its operations. Of the $1.1 billion in total revenues, approximately $98 million was generated by its electric utility operations.

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[1] *See UGI Cent. Penn Gas, Inc.*, Docket No. PR18-46-000 (Aug. 3, 2018) (delegated order) (accepting filings to abandon PNG's and CPG's blanket certificates of limited jurisdiction, which allows UGIU to provide the same jurisdictional services, and discussing merger).

C. Summary of Compliance Findings

Audit staff's compliance findings are summarized below. Details of these findings are in Section IV. Audit staff found the following 9 areas of noncompliance:

1. *Excess Accumulated Deferred Income Tax* – UGIU improperly recorded the excess Accumulated Deferred Income Taxes (ADIT) related to the 2017 Tax Cuts and Jobs Act in Account 282, Accumulated Deferred Income Taxes – Other Property and Account 190, Accumulated Deferred Income Taxes. In addition, UGIU improperly excluded excess and deficient ADIT, created as a result of the 2017 Tax Cuts and Jobs Act, from its wholesale transmission formula rate computation. As a result, UGIU overstated its annual transmission revenue requirement by approximately $357,476 and overbilled wholesale transmission customers in 2018.

2. *Allowance for Funds Used During Construction* – UGIU's method for computing its AFUDC rate was deficient. Specifically, UGIU improperly excluded short-term debt, as the first source of financing construction, in calculating its AFUDC rate. In addition, UGIU improperly included Account 216.1, Unappropriated Undistributed Subsidiary Earnings, and Account 219, Accumulated Other Comprehensive Income, in the equity component to compute its AFUDC rate. Also, UGIU improperly used its fiscal year-end book balance for long-term debt and common equity amounts when computing its AFUDC rate rather than the calendar year-end balances reported in its FERC Form No. 1 during the audit period. As a result, UGIU overaccrued AFUDC amounts included in utility plant accounts by approximately $436,000 from 2017 to 2019 and overbilled wholesale transmission customers.

3. *Postretirement Benefits Other Than Pensions* – UGIU improperly included ADIT related to SFAS 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, as an input to its wholesale transmission formula rate contrary to the directives of its tariff. As a result, UGIU overstated the ADIT balances included in its wholesale transmission formula rate, which led to overstating its annual transmission revenue requirements and overbilling its wholesale transmission customers.

4. *Common Plant O&M Expenses* – UGIU improperly included common plant O&M expenses, that were also included as A&G expenses, in its wholesale transmission formula rate. As a result, UGIU double counted expenses associated with common plant, and consequently, overstated its wholesale transmission revenue requirement by approximately $423,454 during the audit period. This led UGIU to overbill its wholesale transmission customers.

5. *Transmission Revenue Credits* – UGIU understated its revenue credits that were used to reduce the annual transmission revenue requirements calculated by its wholesale transmission formula rate by improperly excluding certain transmission-related revenues recorded in Account 454, Rent from Electric Property. Additionally, UGIU improperly accounted for rental revenue associated with third parties' usage of its utility assets by recording such revenue in Account 418, Nonoperating Rental Income. As a result, UGIU understated the revenue credits includible in its wholesale transmission formula rate, which led to an overstatement of its annual transmission revenue requirements.

6. *Accounting for Affiliate Transactions* – UGIU misclassified various expenses associated with services provided by its parent company in Account 923, Outside Services Employed. Also, UGIU did not consistently apply its internally calculated, cost allocation percentages used to allocate costs between UGIU's electric utility business and its gas utility business. These allocation errors resulted in improper amounts being included in UGIU's wholesale transmission formula rate.

7. *Accounting for Administrative and General Expenses* – UGIU improperly recorded various A&G expenses in a manner contrary to the Commission's accounting regulations. As a result, UGIU overbilled wholesale transmission customers.

8. *Filing of Depreciation Rates with the Commission* – UGIU did not file its depreciation rate schedule with the Commission when depreciation rates were changed. This hindered the Commission's and other interested parties' ability to timely review and monitor UGIU's depreciation rates, which impact prices charged for wholesale transmission services through the formula rate.

9. *FERC Form No. 1 Reporting* – UGIU did not properly follow the FERC Form No. 1 instructions and, therefore, did not report all required information in its FERC Form No. 1 filings.

Other Matter

1. *Accounting for AFUDC ADIT* – UGIU did not record or report in its FERC Form No. 1 deferred income taxes associated with debt and equity AFUDC. UGIU did not record deferred income taxes consistent with the Internal Revenue Service (IRS) uniform capitalization rule for tax purposes regarding AFUDC, which resulted in the same amount of debt and equity AFUDC reported on UGIU's accounting books and Federal tax returns. Had UGIU filed its federal income tax returns in a manner consistent with the IRS's uniform capitalization rule, the resulting deferred income taxes associated with AFUDC debt and equity may have

affected UGIU's wholesale transmission formula rate computation.

D. Recommendations

Audit staff's recommendations to remedy the audit findings are summarized below. Details are in Section IV. Audit staff recommends that UGIU:

Excess Accumulated Deferred Income Tax

1. Implement procedures to ensure that excess and deficient ADIT asset and liability amounts are included in rate base for the computation of the annual transmission revenue requirement.

2. Revise its accounting policies and procedures to ensure that the effect of changes in tax laws or tax rates are implemented in accordance with the Commission's accounting guidance in Docket No. AI93-5.

3. Submit correcting journal entries, within 60 days of issuance of this audit report, with proposed accounting entries and supporting documentation to DAA that reflect corrections to recorded excess and deficient ADIT in the appropriate USofA accounts.

4. Submit a refund analysis, within 60 days of issuance of the audit report, to DAA for review that explains and details the following: (1) calculation of refunds that include the amount of excess and deficient ADIT asset and liability amounts excluded from the transmission formula rates in 2018, plus interest; (2) determinative components of the refund; (3) refund method; and (4) period(s) refunds will be made.

5. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

6. Refund amounts disclosed in the refund report to wholesale transmission customers with interest calculated in accordance with section 35.19a of the Commission's regulations.

Allowance for Funds Used During Construction

7. Revise and implement procedures to ensure that AFUDC rate calculations are consistent with Order Nos. 561 and 561-A, EPI No. 3(A)(17), and other applicable Commission requirements.

8. Revise its procedures to ensure that it includes short-term debt in the computation of the AFUDC rate for its electric utility business.

9. Revise its procedures to exclude Account 216.1 and Account 219 balances from the equity components used to derive its AFUDC rate.

10. Revise its procedures to ensure that it computes AFUDC rates using the calendar year-end balances reported in its FERC Form No. 1 for common equity, preferred stock, and long-term debt.

11. Provide training to its staff on the revised procedures implemented under Recommendation Nos. 7, 8, 9, and 10. Provide periodic training in these areas as needed.

12. Recalculate its accrued AFUDC, in a manner consistent with EPI No. 3(A)(17) that corrects for the improper exclusion of short-term debt, improper inclusion of Account 216.1 and 219 balances, and improper use of fiscal year-end book balances for common equity, preferred stock, and long-term debt from 2012 through the date of issuance of the audit report.

13. Submit proposed accounting entries and supporting documentation to DAA that reflect the correction of the CWIP, electric plant in service, accumulated depreciation, ADIT, and other accounts impacted by over-accrual of AFUDC within 60 days of issuance of the audit report.

14. Submit a refund analysis, within 60 days of issuance of the audit report, to DAA for review that explains and details the following: (1) calculation of refunds that include the amount of excess AFUDC included in the transmission formula rates since 2017, plus interest; (2) determinative components of the refund; (3) refund method; and (4) period(s) refunds will be made.

15. Revise CWIP, electric plant in service, accumulated depreciation, ADIT, and other accounts impacted by over-accrual of AFUDC after receiving DAA's assessment of the proposed accounting entries per Recommendation No. 13 and restate and footnote the FERC Form No. 1 for current and comparative years as necessary.

16. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

17. Refund the amounts disclosed in the refund report to wholesale customers, with interest calculated in accordance with section 35.19a of Commission regulations.

Postretirement Benefits Other Than Pensions

18. Revise and implement procedures, policies, and controls to track and review the transmission formula rate inputs and calculations for accuracy, completeness, and compliance with UGIU's Commission approved formula rate.

19. Provide training to staff on the revised wholesale transmission formula rate procedures. Also, develop a training program that supports the provision of periodic training in this area, as needed.

20. Submit a refund analysis to DAA, within 60 days of issuance of this audit report, that explains and details the following: (1) calculation of refunds that include the amount of inappropriate recoveries during the audit period that resulted from the inclusion SFAS 106 amounts plus interest; (2) determinative components of the refund; (3) refund method; and (4) period(s) refunds will be made.

21. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

22. Refund the amounts disclosed in the refund report to wholesale transmission customers with interest calculated in accordance with section 35.19a of the Commission's regulations.

Common Plant O&M Expenses

23. Develop and implement procedures, policies, and controls to ensure expenses included in the transmission formula rate are not included in multiple areas.

24. Provide training to staff on the revised transmission formula rate procedures. Also, develop a training program that supports the provision of periodic training in this area, as needed.

25. Submit a refund analysis, within 60 days of issuance of this audit report, to DAA for review that explains and details the following: (1) calculation of refunds to UGIU's wholesale transmission customers since 2017, plus interest; (2) determinative components of the refund; (3) refund method; and (4) period(s) for which refunds will be made.

26. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

27. Refund the amounts disclosed in the refund report to wholesale customers, with interest calculated in accordance with section 35.19a of the Commission's regulations.

Transmission Revenue Credits

28. Develop and implement procedures and policies to track, report, review, and account for wholesale transmission revenues consistent with Commission accounting and ratemaking requirements.

29. Provide training to staff on the revised accounting and wholesale transmission revenue procedures. Also, develop a training program that supports the provision of periodic training in this area, as needed.

30. Perform an analysis of rental income accounts to identify revenues that were not properly credited to wholesale transmission customers through UGIU's transmission formula rates for the audit period. Provide the results of the analysis to audit staff within 60 days of the date of issuance of the audit report.

31. Submit a refund analysis to DAA, within 60 days of receiving the audit report, that explains and details the following: (1) calculation of refunds that include the amount of inappropriate recoveries during the audit period that resulted from the exclusion of revenue credits plus interest; (2) determinative components of the refund; (3) refund method; (4) period(s) refunds will be made.

32. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

33. Refund the amounts disclosed in the refund report to wholesale transmission customers with interest calculated in accordance with section 35.19a of the Commission's regulations.

Accounting for Affiliate Transactions

34. Revise and implement procedures and policies to track, report, review, and account for UGI Corporation allocated expenses consistent with Commission accounting requirements.

35. Revise and implement procedures, polices and controls to ensure the correct allocation factors are used to calculate and allocate common expenses recorded in the A&G accounts for the electric utility business.

36. Train staff on the procedures and policies and provide periodic training, as needed.

37. Perform an analysis of A&G expense accounts to identify common expenses that were allocated using the incorrect allocation percentages during the audit period. Provide the results of the analysis to audit staff within 60 days of the date of issuance of the audit report.

38. Submit a refund analysis to DAA, within 60 days of receiving the audit report, that explains and details the following: (1) calculation of refunds that include the amount of inappropriate recoveries during the audit period that resulted from the improper allocation of common expenses recorded in A&G accounts as identified pursuant to the analysis performed in response to Recommendation No. 43, plus interest; (2) determinative components of the refund; (3) refund method; and (4) period(s) refunds will be made.

39. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

40. Refund the amounts disclosed in the refund report to wholesale transmission customers with interest calculated in accordance with section 35.19a of the Commission's regulations.

Accounting for Administrative and General Expenses

41. Revise policies and procedures to ensure that UGIU properly accounts for expenditures in its books and records.

42. Provide training to its staff on the revised procedures for properly accounting for expenditures in UGIU's books and records. Also, develop a training program that supports the provision of periodic training in this area, as needed.

43. Perform an analysis of A&G expense accounts to identify expenses that were inappropriately recovered through UGIU's transmission formula rate and the related customer billings, such as advertising, donations, lobbying, distribution O&M costs, legal costs, and asset insurance improperly charged to accounts included in the transmission formula rate during the audit period. Provide the results of the analysis to audit staff within 60 days of the date of issuance of the audit report.

44. Submit a refund analysis to DAA, within 60 days of receiving the audit report, that explains and details the following: (1) calculation of refunds that include the amount of inappropriate recoveries during the audit period that resulted from the improper accounting for expenses recorded in A&G accounts as identified pursuant to the analysis performed in response to Recommendation No. 43, plus interest; (2) determinative components of the refund; (3) refund method; and (4) period(s) refunds will be made.

45. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

46. Refund the amounts disclosed in the refund report to wholesale transmission customers with interest calculated in accordance with section 35.19a of the Commission's regulations.

Filing of Depreciation Rates with the Commission

47. Develop and implement processes and procedures to ensure that depreciation rates and related studies are filed with the Commission when depreciation rates are changed.

48. File current depreciation studies with the Commission relating to UGIU’s current annual transmission revenue requirement within 60 days of issuance of this audit report.

FERC Form No. 1 Reporting

49. Revise and strengthen documented policies, procedures, and practices to ensure information reported in the FERC Form No. 1 is correct, accurate, and consistent with the instructions of the form.

50. Provide training to staff on the revised FERC Form No. 1 policies, procedures, and practices. Also, develop a training program that supports the provision of periodic training in this area, as needed.

E. Compliance and Implementation of Recommendations

Audit staff further recommends that UGIU submit the following:

- A plan for implementing the audit recommendations within 30 days after the audit report is issued;

- Quarterly reports describing progress in completing each corrective action recommended in the audit report. Quarterly nonpublic submissions should be made no later than 30 days after the end of each calendar quarter, beginning with the first quarter after the audit report is issued, and continuing until all recommended corrective actions are completed; and

- Copies of written policies and procedures developed in response to recommendations. These documents should be submitted in the first quarterly filing after the development of a written policy and procedures.

II. Background

A. UGI Corporate Structure

UGI Corporation is a holding company under the Public Utility Holding Company Act of 2005. UGI Corporation is headquartered in King of Prussia, Pennsylvania, with extensive operations in the United States and Europe. UGI Corporation distributes, stores, transports, and markets energy products and related services through its subsidiaries and affiliates in the following four business segments: UGIU, UGI Energy Services, LLC, UGI International, and AmeriGas Partners, L.P.

UGIU

As noted in the introduction, UGIU operates a regulated natural gas distribution business and an electric utility business. UGIU's natural gas business, prior to October 1, 2018, was comprised of UGIU and two separate, wholly owned natural gas distribution utility subsidiaries, PNG and CPG. UGIU, PNG, and CPG were consolidated by a merger effective October 1, 2018, with UGIU as the surviving entity.[2] The gas utility division serves nearly 655,000 customers in 44 eastern and central Pennsylvania counties and one Maryland county. UGIU's electric utility division provides electric utility service to more than 62,000 customers in Luzerne and Wyoming counties in northeastern Pennsylvania.

UGI Energy Services, LLC

UGI Energy Services, LLC supplies and markets natural gas, electricity, and liquid fuels to approximately 41,000 residential, commercial, and industrial customer locations across the mid-Atlantic and northeastern United States. UGI Energy Services also conducts a midstream natural gas business through its ownership of underground natural gas storage, gas peaking plant, and pipeline assets in Pennsylvania and owns a portion of electric generation assets in Pennsylvania.

UGI International

UGI International distributes liquefied petroleum gas in 17 countries in western and central Europe, operating under seven distinct brands. UGI International also operates a gas marketing business in select countries.

[2] *Id.*

AmeriGas Partners, L.P.

AmeriGas Partners, L.P. is a propane marketer; it serves over 1.6 million customers, in all 50 states, from approximately 1,800 locations, conducting business principally through its subsidiary, AmeriGas Propane, L.P.

B. Accounting and Financial Reporting

UGIU converted from Oracle to SAP as its accounting system during the audit period. UGIU's accounting system interfaces with other financial and operating systems within the Company, including systems for payroll, work management, inventory, procurement, etc. These other systems are used to accumulate accounting data and interface with the main accounting system, i.e. SAP and, previously, Oracle, for financial accounting reporting purposes. A chart of accounts, using numbering similar to the FERC USofA, was set up in UGIU's main accounting system to code and record transactions. For this reason, UGIU's accounting system allows for direct preparation of the FERC Form No. 1 without reclassification or mapping of costs from internal accounts to FERC accounts. The costs incurred by UGIU are recorded in the accounting system using cost elements. The cost elements have unique codes to identify and differentiate the nature of the costs recorded in the account and make the costs readily identifiable for users of the system. The coding serves as a control to ensure business financial and operational transactions are recorded in the proper account.

During the audit period, UGIU began a project to transition its financial systems from Oracle to SAP. The project involved deployment of finance and supply chain systems, customer interfaces, and fixed asset and project accounting systems across the distribution, transmission, and general functions of the Company. The project was fully operational by July 2019. The costs associated with the transition to the SAP accounting system were accumulated in work orders, recorded in the construction work in progress account, and unitized to plant in service accounts after completion of the project.

C. Affiliate Transactions

UGIU is a wholly owned subsidiary of UGI Corporation. UGI Corporation provides common services to UGIU and its other subsidiaries at cost. The common services provided include, but are not limited to, cash management, treasury, tax services, internal auditing, human resources, investor relations, technical accounting, information technology, procurement, external reporting, risk management, and insurance. The services provided by UGI Corporation are administered under a service level agreement. The service level agreement identifies the type of services, how costs are accumulated, and the attribution basis used to allocate the cost to affiliates benefiting from such services. UGI Corporation recovers its costs of providing support services to its affiliates through monthly billings or direct allocations to subsidiaries based on the benefits attributed to that subsidiary. UGI Corporation uses the Modified Wisconsin Formula to determine the appropriate amount of cost to bill each subsidiary benefiting from its services. The Modified Wisconsin Formula measures the relative size of the operating subsidiaries in order to allocate common expenses based upon the activity of each operating subsidiary. From 2017 through 2019, UGI Corporation billed UGIU approximately $40 million for services it provided. UGIU recorded these costs in several FERC accounts based on the nature of the service and type of transaction.

D. Construction Cost Tracking and Reporting

UGIU's construction projects are identified by the various departments within UGIU based on specific company criteria. Construction projects are proposed and prioritized by each department for inclusion in the next budget year or in future periods depending on the construction project schedule. The construction work for a particular budget year is based on need and the expected amount of work that can be completed in a given year considering areas such as budget expectations, resources, and reliability. On an annual basis, UGIU submits its budget, including a capital budget, to the board of directors for review and approval. The board of directors reviews the proposed capital budget and discusses major budget drivers before approving the overall budget for the year. After approval of the capital budget, UGIU's project managers contact the appropriate departments to initiate the creation of capital projects and work orders.

Once the capital project and work orders are created and approved by the appropriate departments, interested individuals are notified to begin charging costs to the project. Costs accumulated in the construction work orders consist of: (1) labor, (2) fringe benefits, (3) incentives, (4) overhead, (5) outside services, (6) materials and supplies, (7) travel and employee expenses, and (8) other costs. AFUDC is computed on the costs accumulated for each project. From 2017 to 2019, UGIU accumulated approximately $23 million in construction costs.

E. Wholesale Transmission Formula Rate

On December 13, 2006, the Commission, in a delegated letter order, accepted UGIU's wholesale transmission formula rate for determining UGIU's annual transmission revenue requirement under Attachment H-8C of the PJM OATT.[3] UGIU is a transmission owner in PJM and therefore operates its transmission assets under PJM's direction, pursuant to PJM's OATT. UGIU recovers its costs of owning, operating, and maintaining its transmission system using the transmission formula rate approved by the Commission, and included in Attachment H of PJM's OATT. The PJM region is divided into zones. UGIU is in the PPL Group zone, along with PPL Electric Utilities

[3] *UGI Utils., Inc.*, Docket No. ER06-1445-000 (Dec. 13, 2006) (delegated order).

Corporation (PPL) and Allegheny Electric Cooperative (AEC). Under the PJM OATT, each zone within the PJM region has an annual transmission revenue requirement used to establish the unit rates for network and point-to-point transmission service within the zone. The total annual transmission revenue requirement in the PPL Group zone is calculated as the sum of the individual transmission revenue requirements of PPL, AEC, and UGIU.

UGIU's wholesale transmission formula rate was designed to provide a reasonable opportunity to recover (1) the costs and expenses associated with providing transmission service, and (2) a reasonable return for transmission investments. The development of appropriate annual transmission revenue requirements using the transmission formula rate for purposes of determining wholesale billings relies on the accuracy of the costs recorded in UGIU's FERC Form No. 1 filings. This means that accurate accounting of costs and transmission investments in UGIU's FERC Form No. 1 filings is important for the development of the annual transmission revenue requirement and billings to wholesale transmission customers.

III. Introduction

A. Objectives

The audit evaluated UGIU's compliance with: (1) the tariff requirements governing its FERC jurisdictional rates, including its transmission formula rate mechanism as provided in Attachment H-8C of the PJM OATT; (2) accounting requirements of the USofA under 18 C.F.R. Part 101; (3) reporting requirements of the FERC Form No. 1, Annual Report of Major Electric Utilities, Licensees and Others, under 18 C.F.R. § 141.1; and (4) the requirements in Preservation of Records of Public Utilities and Licensees under 18 C.F.R. Part 125. The audit covered the period from January 1, 2017 through July 29, 2020.

B. Scope and Methodology

Audit staff performed the following to facilitate testing and evaluation of UGIU's compliance with Commission requirements relevant to the audit objectives:

- *Reviewed Public Information* – Conducted an extensive review of public information before commencing the audit. This review provided a high-level understanding of UGIU's corporate structure, the services it provides, major events affecting operations and finances, mergers, significant contracts, and other key regulatory and business activities. Examples of materials reviewed include UGI Corporation's annual reports and SEC Form 10-Ks, UGIU FERC Form No. 1s, Company-related web sites, and other relevant regulatory and media sources.

- *Identified Standards and Audit Criteria* – Identified the regulatory requirements and criteria for evaluating UGIU's compliance with each audit objective. These include Attachment H-8C of PJM's OATT, Commission financial accounting and reporting requirements, and other Commission orders relevant to the audit.

- *Issued Data Requests* – Issued data requests to collect information not commonly available to the public. This information includes internal policies, procedures and controls, business practices, risk management, corporate structure, contractual agreements, financial accounting and reporting activity, corporate compliance, regulatory filings, and other pertinent information. These data were used to test and evaluate UGIU's compliance with Commission requirements relevant to the audit's objectives.

- *Conducted Teleconference Interviews* – Conducted multiple teleconferences with UGIU employees to discuss audit objectives, processes, procedures and operations, testing, data request responses, technical and administrative matters, and compliance concerns.

- *Conducted Virtual Site Visits* – Due to the COVID-19 pandemic, audit staff conducted all site visits via conference calls using Commission approved software to interact with UGIU staff, instead of in-person site visits to UGIU's offices. The virtual site visits enabled audit staff to:

    - Discuss UGIU's corporate structure, departmental functions, and employee responsibilities with key company officials, and meet such officials virtually;

    - Learn about UGIU's transmission system and operations, in particular the assets, departments, activities, functions, systems, and processes used;

    - Interview executives, managers, and staff responsible for accounting, financial reporting, transmission operations, and corporate compliance; and

    - Discuss and observe accounting and reporting procedures, processes, and controls relevant to the audit's scope.

- *Conferred with Subject-Matter Experts* – Conferred with Commission staff in other offices to ensure audit report findings were consistent with Commission precedent and policy.

Audit staff evaluated UGIU's compliance with all relevant requirements of the audit objectives through the following:

Compliance with Wholesale Transmission Formula Rate

Audit staff performed these actions to evaluate UGIU's compliance with the requirements of its wholesale transmission formula rate:

- *Formula Rate Schedules* – Reviewed Commission-approved wholesale transmission formula rate and schedules in effect for UGIU as reported on page 106 of UGIU's FERC Form No. 1.

- *Commission Orders* – Reviewed the Commission order accepting UGIU's wholesale transmission formula rate. Reviewed Commission order for background information about specific cost treatments and unique inputs, and other matters disclosed as part of approving the derivation of UGIU's wholesale transmission formula rate.

- *Formula Rate Procedures* –Evaluated UGIU's processes, procedures, and controls used for preparing and reviewing annual transmission formula rate filings and their supporting work papers.

- *Interviewed Employees* – Interviewed UGIU employees responsible for providing data inputs into the transmission formula rate and calculating the annual transmission revenue requirement. Assessed the level of oversight and controls employed by UGIU to ensure complete and accurate wholesale transmission formula rate inputs.

- *Formula Rate Input Reconciliation* – Reconciled the wholesale transmission formula rate inputs to figures reported in UGIU's FERC Form No. 1s for 2017 and 2018. Evaluated the adequacy of disclosures provided by UGIU for formula rate inputs not derived from its FERC Form No. 1s.

- *Mathematical Accuracy* – Evaluated the mathematical accuracy of computations performed by UGIU in applying its wholesale transmission formula rate to test whether inputs and computations were accurate. For example, audit staff reviewed supporting documentation for the depreciation rate used to test whether amounts were correctly populated into the wholesale transmission formula rate template.

- *Formula and Input Analysis* – Reconciled the components of the approved formula rate to the corresponding calculations in the annual transmission revenue requirement filings. Analyzed and assessed UGIU's compliance with the Commission's required accounting treatment of select formula rate inputs. Reviewed UGIU's calculation and application of the allocation factors used in the wholesale transmission formula rate to test whether the correct amounts were used in these calculations.

Compliance with Commission Accounting Regulations

Audit staff performed these actions to evaluate UGIU's compliance with the Commission's accounting regulations under 18 C.F.R. Part 101:

- *Accounting Process and Procedures* – Evaluated UGIU's financial accounting processes, procedures, and internal controls for consistency with Commission financial accounting regulations under 18 C.F.R. Part 101. Audit staff interviewed UGIU employees about accounting practices, reviewed system processes for account assignments, and observed controls for achieving compliance with the Commission's accounting regulations.

- *Accounting Applications and Classifications* – Evaluated UGIU's chart of accounts used during the audit period to determine whether it was consistent with the Commission's accounting regulations. Reviewed descriptions of accounting practices and tested specific accounts in sample months to determine whether accounting classifications complied with the Commission's accounting regulations.

- *Accounting Systems* – Reviewed UGIU's financial accounting systems used to manage company financial records, such as systems for recording and tracking UGIU's costs, including the general ledger, work order, expense, billing, and accounts payable systems. Reviewed practices and procedures around the accounting cycle for charges and the mapping of these charges to FERC accounts.

- *Significant Accounting Matters* – Tested select accounts impacting or comprising inputs to the wholesale transmission formula rate to evaluate whether the nature of costs recorded in those accounts complied with the Commission's accounting regulations and UGIU wholesale transmission formula rate requirements. Audit staff performed select testing of these accounting matters:

    - *Transmission versus Distribution* – Reviewed certain transmission operating and maintenance accounts to test whether costs related to transmission or, alternatively, distribution were appropriately recorded in the correct functional expense accounts;

    - *A&G Expenses* – Tested select A&G expense accounts to determine whether UGIU recorded salaries, office supplies, outside services (e.g., consultant fees), pensions and employee benefits, etc., consistent with the accounts' instructions;

    - *Non-operating Expenses* – Examined summaries for non-operating expense accounts to ensure UGIU appropriately recorded non-operating expenses, such as political and charitable contributions, in these accounts. Examined the accounting for expenses for employment practices that judicial or administrative decrees found to be discriminatory to verify that UGIU recorded these expenses to the proper non-operating expense account consistent with Commission policy;

- *Cost Allocations* – Examined the support for, and tested the application of, corporate and associated company allocation methodologies for allocating and recording shared service costs among affiliates, and billing and accounting for non-power goods and services provided among associated companies. For example, audit staff reviewed allocation ratios and tested selected costs to test whether UGIU was allocated and had accounted for shared services correctly. Also reviewed affiliate billing procedures and select invoices to test whether UGIU recorded the proper amounts in accordance with those procedures;

- *ADIT* – Reviewed a monthly summary of deferred taxes that flowed into the rate base component of the wholesale transmission formula rate. Analyzed supporting documentation to evaluate how UGIU calculated the deferred tax component and underlying accounting entries made to FERC deferred tax accounts (i.e., Accounts 190, 282, and 283).

- *Income Taxes and Tax Allocation Agreements* – Evaluated UGIU's consolidated income tax allocation agreement and the tax payment structure between UGIU and the consolidated group, including the methodology used to allocate the tax benefits/burden to members of the consolidated group. Reviewed supporting documentation to validate the calculation of tax accruals and deferred income taxes;

- *Depreciation* – Reviewed UGIU's monthly depreciation and amortization expense and supporting calculations to determine whether UGIU used the proper accounts and recorded the correct amounts. Reviewed UGIU's depreciation expense calculation to test whether it derived monthly depreciation expenses using approved depreciation rates on file with the Commission;

- *Contingent Liabilities* – Reviewed the Notes to the Financial Statements in UGIU's FERC Form No. 1 filings and identified information about accruals for potential future obligations. Analyzed information on commitments and environmental and legal contingencies, and assessed whether these amounts affected the wholesale transmission formula rate's resulting annual transmission revenue requirement and billing rates; and

- *AFUDC* – Reviewed UGIU's AFUDC rate calculation for consistency with EPI No. 3, Order No. 561, Order No. 561-A, and other Commission AFUDC guidance. Reviewed UGIU's methodology for determining the annual AFUDC rate to test whether it was based upon UGIU's own debt and equity book balances and to ensure that the short-term debt rate variance did not exceed 25 basis points. Reviewed work orders to test whether UGIU ceased accruing AFUDC during the following instances: (1) when an asset was placed in-service, (2) during periods of suspension of construction, and (3) when plant was abandoned. Examined the components of UGIU's construction base to determine whether UGIU only included amounts related to construction activities and properly allocated overheads.

Compliance with FERC Form No. 1 Reporting Requirements

Audit staff performed these actions to evaluate UGIU's compliance with Commission reporting requirements under 18 C.F.R. Part 141:

- *Reporting Processes and Procedures* – Evaluated UGIU's financial reporting processes, procedures, and quality controls used to prepare its FERC Form No. 1 filings.

- *Financial Reporting Instructions* – Evaluated UGIU's financial reporting to determine whether it complied with the account and page instructions of FERC Form No. 1s for 2017 through 2019.

- *Financial Statement Account Balances* – Tied the account balances reported in UGIU's FERC Form No. 1 filings to UGIU's books and records (i.e., its general ledger). To facilitate the review, audit staff reviewed selected transactions to confirm the balances.

- *Account Variance Analysis* – Performed variance analyses for sample accounts reported in UGIU's FERC Form No. 1s with large balances, unusual activity, and/or significant fluctuations.

- *Notes to Financial Statements* – Reviewed the Notes to the Financial Statements of UGIU's FERC Form No. 1s for significant accounting matters and followed up on these matters to understand financial statement and wholesale transmission formula rate implications.

IV. Findings and Recommendations

1. Excess Accumulated Deferred Income Tax

UGIU improperly recorded the excess ADIT related to the 2017 Tax Cuts and Jobs Act in Account 282, Accumulated Deferred Income Taxes – Other Property and Account 190, Accumulated Deferred Income Taxes. In addition, UGIU improperly excluded excess and deficient ADIT, created as a result of the 2017 Tax Cuts and Jobs Act, from its wholesale transmission formula rate computation. As a result, UGIU overstated its annual transmission revenue requirement by approximately $357,476 and overbilled wholesale transmission customers in 2018.

Pertinent Guidance

- UGIU Transmission Formula Rate, Attachment H-8C, Adjustment to Rate Base, Accumulated Deferred Income Taxes, line 40, provides:

  ADIT net of FASB 106 and 109.[4]

- Accounting Interpretation 93-5, Accounting for Income Taxes, Question No.8, CHANGES IN TAX LAW OR RATES, provides:

  Question: How should an entity record the effect of a change in tax law or rates that occurs after the year of initial implementation of SFAS 109?

  Response: The entity shall adjust its deferred tax liabilities and assets for the effect of the change in tax law or rates in the period that the change is enacted. The adjustment shall be recorded in the proper deferred tax balance sheet accounts (Accounts 190, 281, 282 and 283) based on the nature of the temporary difference and the related classification requirements of the accounts. If as a result of action by a regulator, it is probable that the future increase or decrease in taxes payable due to the change in tax law or rates will be recovered from or returned to customers through future rates, an asset or liability shall be recognized in Account 182.3, Other Regulatory Assets, or Account 254, Other Regulatory Liabilities, as appropriate, for that probable future revenue or reduction in future revenue. That asset or liability is also a temporary difference for

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[4] PJM, Intra-PJM Tariffs, OATT, ATT H-8C, OATT Attachment H-8C – UGI (4.0.0), Appendix A at line 40.

> which a deferred tax asset or liability shall be recognized in Account 190, Accumulated Deferred Income Taxes or Account 283, Accumulated Deferred Income Taxes – Other, as appropriate.[5]

Background

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (Tax Cuts and Jobs Act) was signed into law , which, among other things, reduced the federal corporate income tax rate from 35 percent to 21 percent, effective January 1, 2018.[6] Accordingly, UGIU computed income taxes owed to the Internal Revenue Service (IRS) based on a 21 percent tax rate, beginning January 1, 2018. The tax rate reduction also resulted in a reduction in ADIT assets and liabilities recorded in Accounts 190, 281, 282, and 283 on the books of UGIU.[7] The reduction in ADIT assets and liabilities led to the creation of deficient and excess ADIT, as required by Financial Accounting Standards Board's (FASB) SFAS 109 and the Commission's accounting guidance.[8]

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[5] *Accounting for Income Taxes*, Docket No. AI93-5-000, at 8 (Apr. 23, 1993) (letter ruling by Chief Accountant) (*Accounting Interpretation 93-5*), *order on reh'g sub nom. Accounting for Income Taxes Under SFAS 109*, 64 FERC ¶ 61,352 (1993).

[6] Tax Cuts and Jobs Act, Pub. L. No. 115-97, 131 Stat. 2054 (2017).

[7] ADIT balances are accumulated on the regulated books and records of public utilities based on the requirements of the USofA. ADIT arises from timing differences between the method of computing taxable income for reporting to the IRS and the method of computing income for regulatory accounting and ratemaking purposes. *See* 18 C.F.R. § 35.24(d)(2) (2020). As a result of the reduction in the federal corporate income tax rate, a portion of an ADIT liability that was collected from customers will no longer be payable from the public utility to the IRS and is considered excess ADIT, which must be returned to customers in a cost-of-service ratemaking context. Additionally, for public utilities that have an ADIT asset, the Tax Cuts and Jobs Act will result in a reduction to that ADIT asset, and the amount of the reduction is considered deficient ADIT.

[8] *See Accounting Interpretation 93-5*, at Item 8. The Financial Accounting Standards Board (FASB) is an independent, private-sector, not-for-profit organization that establishes financial accounting and reporting standards for public and private companies, and not-for-profit organizations that follow Generally Accepted Accounting Principles (GAAP).

In December 2017, UGIU appropriately recorded the excess and deficient ADIT created by its implementation of the Tax Cuts and Jobs Act in Account 254, Other Regulatory Liabilities, and Account 182.3, Other Regulatory Assets, respectively. Subsequently, in September 2018, UGIU improperly increased the excess ADIT amounts back to its pre-Tax Cuts and Jobs Act balance in Account 282 and increased Account 190 with the same amount. UGIU's rationale for changing its initial accounting for excess ADIT was to ensure rate base neutrality, keep the ADIT normalization in accordance with the Average Rate Assumption Method, and simplify tracking and reconciling the ADIT in its original accounts.

Audit staff conveyed to UGIU that the Commission's accounting guidance provided in Docket No. AI93-5 contains guidance on the appropriate accounting for excess and deficient ADIT created as a result of a tax rate change. This accounting guidance provides that jurisdictional utilities adjust their deferred tax liabilities and assets for the effect of the change in tax law or rates in the period that the change is enacted. The accounting guidance also provides that if, as a result of the action of a regulator, the excess and deficient ADIT will be returned to or recovered from customers through future rates, an asset or liability be recognized in Account 182.3, Other Regulatory Assets, or Account 254, Other Regulatory Liabilities, as appropriate, for that probable future revenue or reduction in future revenue. Hence, UGIU's subsequent accounting of the excess ADIT in Accounts 282 and 190 was contrary to the Commission's guidance.

UGIU's transmission formula rate employs a historical year methodology and is based on actual costs. UGIU's transmission formula rate provides for adjustments to rate base for ADIT and associated amounts recorded in regulatory asset and liability accounts related to SFAS 109, accounting for income taxes,[9] and SFAS 106, Employers' Accounting for Postretirement Benefits Other Than Pensions.[10]

On May 15, 2018, UGIU submitted its 2018 annual update for its wholesale transmission formula rate. The annual update contained UGIU's annual transmission revenue requirement for the 2018 Rate Year.[11] The annual transmission revenue requirement was calculated using inputs from UGIU's FERC Form No. 1 for 2017. Audit staff reviewed the 2018 annual update to determine whether UGIU included the excess and deficient ADIT amounts it recorded in Account 254 as a regulatory liability and Account 182.3 as a regulatory asset. Audit staff determined that UGIU excluded from rate base the excess and deficient ADIT amounts it recorded in Accounts 254 and

[9] Accounting Standard Codification (ASC) 740 supersedes SFAS 109.

[10] ASC 715 supersedes SFAS 106.

[11] UGIU's 2018 annual transmission revenue requirement was in effect from June 1, 2018 through May 31, 2019 and was computed using 2017 FERC Form No. 1 data.

182.3. However, the excess ADIT represents amounts that have already been collected from customers and should be included in rate base in order to keep rate base neutral from the effect of the tax rate change. UGIU's transmission formula rate provides for adjustments to rate base for ADIT amounts related to SFAS 106 and 109, so UGIU should have included the excess and deficient ADIT amounts it recorded in Accounts 254 and 182.3 as rate base items in order to keep rate base neutral from the effect of the tax rate change.

Since UGIU improperly excluded excess and deficient ADIT amounts from rate base and did not maintain rate base neutrality to UGIU's wholesale transmission formula rate, UGIU overstated its annual transmission revenue requirement by approximately $375,476 and overbilled wholesale transmission customers during its 2018 rate year.

Recommendations

We recommend that UGIU:

1. Implement procedures to ensure that deficient and excess ADIT asset and liability amounts are included in rate base for the computation of the annual transmission revenue requirement.

2. Revise its accounting policies and procedures to ensure that the effect of changes in tax laws or tax rates are implemented in accordance with the Commission's accounting guidance in Docket No. AI93-5.

3. Submit correcting journal entries, within 60 days of issuance of this audit report, with proposed accounting entries and supporting documentation to DAA that reflect corrections to recorded excess and deficient ADIT in the appropriate USofA accounts.

4. Submit a refund analysis, within 60 days of issuance of the audit report, to DAA for review that explains and details the following: (1) calculation of refunds that include the amount of excess and deficient ADIT asset and liability amounts excluded from the transmission formula rates in 2018, plus interest; (2) determinative components of the refund; (3) refund method; and (4) period(s) refunds will be made.

5. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

6. Refund amounts disclosed in the refund report to wholesale transmission customers with interest calculated in accordance with section 35.19a of the Commission's regulations.

2. Allowance for Funds Used During Construction

UGIU's method for computing its AFUDC rate was deficient. Specifically, UGIU improperly excluded short-term debt, as the first source of financing construction, in calculating its AFUDC rate. In addition, UGIU improperly included Account 216.1, Unappropriated Undistributed Subsidiary Earnings, and Account 219, Accumulated Other Comprehensive Income, in the equity component to compute its AFUDC rate. Also, UGIU improperly used its fiscal year-end book balance for long-term debt and common equity amounts when computing its AFUDC rate rather than the calendar year-end balances reported in its FERC Form No. 1 during the audit period. As a result, UGIU overaccrued AFUDC amounts included in utility plant accounts by approximately $436,000 from 2017 to 2019 and overbilled wholesale transmission customers.

Pertinent Guidance

- EPI No. 3(A)(17) states, in part:

  (a) The formula and elements for the computation of the allowance for funds used during construction shall be:

  Ai = s(S/W) + d (D/D + P + C) (1 - S/W)
  Ae = [1 - S/W] [p (P/D + P + C) + c(C/D + P + C)]
  Ai = Gross allowance for borrowed funds used during construction rate
  Ae = Allowance for other funds used during construction rate
  S = Average short-term debt
  s = Short-term debt interest rate
  D = Long-term debt
  d = long-term debt interest rate
  P = Preferred stock
  p = Preferred stock cost rate
  C = Common equity
  c = Common equity cost rate

  (b) The rates shall be determined annually. The balances for long-term debt, preferred stock and common equity shall be the actual book balances as of the end of the prior year. The cost rates for long-term debt and preferred stock shall be the weighted average cost determined in the manner indicated in § 35.13 of the Commission's Regulations [u]nder the Federal Power Act. The cost rate for common equity shall be the rate granted common equity in the last rate proceeding before the ratemaking body having primary rate jurisdiction[]. If such cost rate is not available, the average rate actually earned during the preceding three years shall be used. The short-term debt balances and related cost and the average balance for construction work in progress plus nuclear fuel in process of

> refinement, conversion, enrichment, and fabrication shall be estimated for the current year with appropriate adjustments as actual data becomes available.[12]

- Order No. 469 states, in part:

> [I]t will continue to be the Commission's policy that the undistributed earnings of subsidiaries are to be excluded from the common stockholder's equity in determining rate of return.[13]

Background

AFUDC represents the financing cost of construction and consists of two components: Allowance for Borrowed Funds (debt) and Allowance for Other Funds (equity). The Commission's predecessor agency, the Federal Power Commission, in Order No. 561,[14] established the current formula for capturing these two components of AFUDC. EPI No. 3(A)(17) provides the uniform formula for calculating a utility's maximum AFUDC rate. Audit staff reviewed UGIU's AFUDC rate calculations and the inputs that UGIU factored into the debt and equity components during the audit period, as well as UGIU's application of AFUDC to CWIP during the audit period. This process included interviewing UGIU's plant accounting staff and testing a sample of construction work orders, invoices, and other supporting documents for several construction projects.

Based on audit staff's review of UGIU's AFUDC rate computation, audit staff identified three issues relating to UGIU's calculation and application of AFUDC as follows:

Short-Term Debt

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[12] 18 C.F.R. Part 101, Electric Plant Instruction (EPI) No. 3(17); *see Amendments to Uniform System of Accounts for Public Utilities and Licensees and for Natural Gas Companies (Classes A, B, C and D) To Provide for the Determination of Rate for Computing the Allowance for Funds Used During Construction and Revisions of Certain Schedule Pages of FPC Reports*, Order No. 561, 57 FPC 608 (Order No. 561), *reh'g denied*, Order No. 561-A, 59 FPC 1340 (1977) (Order No. 561-A), *order on clarification*, 2 FERC ¶ 61,050 (1978).

[13] *Revisions in Uniform System of Accounts, and Annual Report Forms No. 1 and No. 2 to Adopt the Equity Method of Accounting for Long-Term Investments in Subsidiaries*, Order No. 469, 49 FPC 326, at 327, *reh'g denied*, 49 FPC 1028 (1973).

[14] *See supra* note 12.

UGIU improperly excluded short-term debt, as the first source of financing construction, in calculating its AFUDC rate for its electric utility business. UGIU operates a regulated natural gas distribution business and an electric utility business. UGIU computes AFUDC rates separately for its regulated natural gas distribution business and the electric utility business. Audit staff's review of UGIU's AFUDC rate computation for the regulated natural gas distribution business and the electric utility business identified that UGIU included short-term debt in the computation of the AFUDC rate for the regulated natural gas distribution business but excluded short-term debt amounts for its electric utility business.

Upon further review, UGIU admitted that its exclusion of short-term debt in the electric utility business AFUDC rate computation was an oversight and agreed that it would make appropriates corrections. Order No. 561 prescribes a formula for deriving each regulated entity's maximum permitted AFUDC rate, and this formula considers the short-term debt amount as the first source of financing for a construction project. Hence UGIU's improper exclusion of its short-term debt amount in computing its AFUDC rate for its electric utility business led to a higher AFUDC rate than the maximum AFUDC rate computed under, and allowed by, the Commission's regulations.

Equity Component of the AFUDC Rate Computation

UGIU improperly included Account 216.1, Unappropriated Undistributed Subsidiary Earnings, and Account 219, Accumulated Other Comprehensive Income, in the equity component when computing its AFUDC rate. AFUDC includes the net cost of borrowed funds used for construction purposes and an allowed rate on other funds. Since the amounts in Account 216.1 were undistributed by the subsidiaries and the gains and losses in Account 219 were unrealized, and therefore not available to finance construction, those amounts should not have been considered as funds available for construction in deriving the AFUDC rates. In Order No. 469, the Commission stated that undistributed earnings of subsidiaries are to be excluded from the common stockholder's equity in determining rate of return.

Prior year-end book balances

UGIU improperly used its fiscal year-end book balances for long-term debt and common equity amounts when computing its AFUDC rate rather than the calendar year-end balances reported in its FERC Form No. 1 during the audit period. Order No. 561 stated that the balances for long-term debt, preferred stock, and common equity for computing the AFUDC rate shall be the actual book balances as of the end of the prior year. This requirement does not allow UGIU to use its fiscal year-end book balances but requires computation of its AFUDC rate using its calendar year-end balances for common equity, preferred stock, and long-term debt.

Conclusion

As a result of these errors, UGIU overaccrued approximately $436,000 of AFUDC from 2017 to 2019, which was capitalized as a component of cost of construction and subsequently included in Account 106, Completed Construction Not Classified – Electric (Major Only), or Account 101, Electric Plant in Service (Major Only). Of the approximately $436,000 of overaccrued AFUDC, $58,000 were recorded in UGIU's transmission plant accounts with the remaining $378,000 recorded in distribution and general plant accounts. In addition, UGIU overbilled wholesale transmission customers for the excessive AFUDC costs included in utility plant and factored into the transmission wholesale formula rate determination during the audit period.

Recommendations

We recommend that UGIU:

7. Revise and implement procedures to ensure that AFUDC rate calculations are consistent with Order Nos. 561 and 561-A, EPI No. 3(A)(17), and other applicable Commission requirements.

8. Revise its procedures to ensure that it includes short-term debt in the computation of the AFUDC rate for its electric utility business.

9. Revise its procedures to exclude Account 216.1 and Account 219 balances from the equity components used to derive its AFUDC rate.

10. Revise its procedures to ensure that it computes AFUDC rates using the calendar year-end balances reported in its FERC Form No. 1 for common equity, preferred stock, and long-term debt.

11. Provide training to its staff on the revised procedures implemented under Recommendation Nos. 7, 8, 9, and 10. Provide periodic training in these areas as needed.

12. Recalculate its accrued AFUDC, in a manner consistent with EPI No. 3(A)(17) that corrects for the improper exclusion of short-term debt, improper inclusion of Account 216.1 and 219 balances, and improper use of fiscal year-end book balances for common equity, preferred stock, and long-term debt from 2012 through the date of issuance of the audit report.

13. Submit proposed accounting entries and supporting documentation to DAA that reflect the correction of the CWIP, electric plant in service, accumulated depreciation, ADIT, and other accounts impacted by over-accrual of AFUDC within 60 days of issuance of the audit report.

14. Submit a refund analysis, within 60 days of issuance of the audit report, to DAA for review that explains and details the following: (1) calculation of refunds that include the amount of excess AFUDC included in the transmission formula rates

since 2017, plus interest; (2) determinative components of the refund; (3) refund method; and (4) period(s) refunds will be made.

15. Revise CWIP, electric plant in service, accumulated depreciation, ADIT, and other accounts impacted by over-accrual of AFUDC after receiving DAA's assessment of the proposed accounting entries per Recommendation No. 13 and restate and footnote the FERC Form No. 1 for current and comparative years as necessary.

16. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

17. Refund the amounts disclosed in the refund report to wholesale customers, with interest calculated in accordance with section 35.19a of Commission regulations.

3. Postretirement Benefits Other Than Pensions

UGIU improperly included ADIT related to SFAS 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, as an input to its wholesale transmission formula rate contrary to the directives of its tariff. As a result, UGIU overstated the ADIT balances included in its wholesale transmission formula rate, which led to overstating its annual transmission revenue requirements and overbilling its wholesale transmission customers.

Pertinent Guidance

- UGIU Transmission Formula Rate, Attachment H-8C, line 40, provides:

  ADIT net of FASB 106 and 109.[15]

Background

Audit staff reviewed UGIU's ADIT amounts included in the rate base section of its wholesale transmission formula rate to determine whether UGIU appropriately included or excluded specific ADIT items as required by its wholesale transmission formula rate. For the calculations of UGIU's annual transmission revenue requirements for 2018 and 2019, audit staff discovered that SFAS 106 ADIT amounts recorded in Account 190, Accumulated Deferred Income Taxes, were not excluded from the ADIT calculation as instructed by the formula rate template. UGIU acknowledged that SFAS 106 amounts should have been excluded per its formula rate.

As a result of UGIU's inclusion of SFAS 106 amounts in its wholesale transmission formula rate computations, the Company overstated its annual transmission revenue requirement in 2018 and 2019. The overstatement of the transmission revenue requirement led to UGIU overbilling its wholesale transmission customers.

Recommendations

We recommend that UGIU:

18. Revise and implement procedures, policies, and controls to track and review the transmission formula rate inputs and calculations for accuracy, completeness, and compliance with UGIU's Commission approved formula rate.

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[15] PJM, Intra-PJM, OATT, ATT H-8C, OATT Attachment H-8C – UGI (4.0.0), Appendix A at line 40. *See also id*. Attachment 1 – Accumulated Deferred Income Tax (ADIT) Worksheet.

19. Provide training to staff on the revised wholesale transmission formula rate procedures. Also, develop a training program that supports the provision of periodic training in this area, as needed.

20. Submit a refund analysis to DAA, within 60 days of issuance of this audit report, that explains and details the following: (1) calculation of refunds that include the amount of inappropriate recoveries during the audit period that resulted from the inclusion SFAS 106 amounts plus interest; (2) determinative components of the refund; (3) refund method; and (4) period(s) refunds will be made.

21. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

22. Refund the amounts disclosed in the refund report to wholesale transmission customers with interest calculated in accordance with section 35.19a of the Commission's regulations.

4. Common Plant O&M Expenses

UGIU improperly included common plant O&M expenses, that were also included as A&G expenses, in its wholesale transmission formula rate. As a result, UGIU double counted expenses associated with common plant, and consequently, overstated its wholesale transmission revenue requirement by approximately $423,454 during the audit period. This led UGIU to overbill its wholesale transmission customers.

Pertinent Guidance

- UGIU Transmission Formula Rate, Attachment H-8C, Allocated General & Common Expenses, Line 67, Common Plant O&M, Note A, states:

  Electric portion only.[16]

Background

UGIU calculates and recovers the cost of providing transmission service to wholesale customers through a cost-of-service formula rate approved by the Commission and included under Attachment H-8C of the PJM OATT. UGIU uses the transmission formula rate to calculate its annual transmission revenue requirement and billings to wholesale transmission customers. The transmission formula rate is populated in part with costs and expenses recorded in UGIU's FERC Form No.1 and other internal company financial records.

Audit staff reviewed UGIU's common plant O&M and A&G costs included in the computation of its annual transmission revenue requirement in order to determine whether amounts were appropriately included in the wholesale transmission revenue requirement. Audit staff found that UGIU included expenses associated with software services as common plant O&M cost in the formula rate and also included the same expenses as A&G cost in the formula rate. As a result of the duplication of software cost under the O&M and A&G sections of the transmission formula rate, UGIU overstated its wholesale transmission revenue requirement by approximately $423,454 and overbilled wholesale transmission customers.

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[16] PJM, Intra-PJM Tariffs, Intra-PJM, OATT, ATT H-8C, OATT Attachment H-8C – UGI (4.0.0), Appendix A at line 67 & note A.

Recommendations

We recommend that UGIU:

23. Develop and implement procedures, policies, and controls to ensure expenses included in the transmission formula rate are not included in multiple areas.

24. Provide training to staff on the revised transmission formula rate procedures. Also, develop a training program that supports the provision of periodic training in this area, as needed.

25. Submit a refund analysis, within 60 days of issuance of this audit report, to DAA for review that explains and details the following: (1) calculation of refunds to UGIU's wholesale transmission customers since 2017, plus interest; (2) determinative components of the refund; (3) refund method; and (4) period(s) for which refunds will be made.

26. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

27. Refund the amounts disclosed in the refund report to wholesale customers, with interest calculated in accordance with section 35.19a of the Commission's regulations.

5. Transmission Revenue Credits

UGIU understated its revenue credits that were used to reduce the annual transmission revenue requirements calculated by its wholesale transmission formula rate by improperly excluding certain transmission-related revenues recorded in Account 454, Rent from Electric Property. Additionally, UGIU improperly accounted for rental revenue associated with third parties' usage of its utility assets by recording such revenue in Account 418, Nonoperating Rental Income. As a result, UGIU understated the revenue credits includible in its wholesale transmission formula rate, which led to an overstatement of its annual transmission revenue requirements.

Pertinent Guidance

- 18 C.F.R. Part 101, Account 418, Nonoperating Rental Income, states in part:

  > A. This account shall include all rent revenues and related expenses of land, buildings, or other property included in account 121, Nonutility Property, which is not used in operations covered by account 417 or 417.1.

- 18 C.F.R. Part 101, Account 454, Rent from Electric Property, states in part:

  > A. This account shall include rents received for the use by others of land, buildings, and other property devoted to electric operations by the utility.

- UGIU Transmission Formula Rate, Attachment H-8C, Attachment 3 – Revenue Credit Workpaper, Account 454 – Rent from Electric Property, Note 3, states in part:

  > Ratemaking treatment for the following specified secondary uses of transmission assets: (1) right-of-way leases and leases for space on transmission facilities for telecommunications; (2) transmission tower licenses for wireless antennas; (3) right-of-way property leases for farming, grazing or nurseries; (4) licenses of intellectual property (including a portable oil degasification process and scheduling software); and (5) transmission maintenance and consulting services (including energized circuit maintenance, high-voltage substation maintenance, safety training, transformer oil testing, and circuit breaker testing) to other utilities and large customers (collectively,

products).[17]

Background

Audit staff evaluated UGIU's accounting policies and procedures for recording items in Account 454, Rent from Electric Property, and Account 418, Nonoperating Rental Income, in order to determine whether UGIU appropriately reported amounts in these accounts and included transmission-related revenues in its wholesale transmission revenue computation as a revenue credit. As part of this review, audit staff examined UGIU's invoicing, assessed supporting documentation for revenues recorded in Accounts 454 and 418, and interviewed employees who performed relevant accounting functions.

Account 454

UGIU excluded transmission-related revenues recorded in Account 454 as a revenue credit when computing its annual transmission revenue requirement contrary to its approved wholesale transmission formula rate. Audit staff found that some pole attachment revenues recorded in Account 454 were generated using transmission assets but were not included in the annual transmission revenue requirement computation. UGIU admitted that the exclusion of the transmission-related revenues from the computation of the annual transmission revenue requirement was in error and stated that it would make appropriate corrections. As a result of the error, UGIU understated the revenue credits includible in its wholesale transmission formula rate, which led to an overstatement of its annual transmission revenue requirements.

Account 418

UGIU improperly accounted for rental revenue associated with third parties' usage of its utility assets by recording such revenue in Account 418, a nonoperating revenue account. Per the Commission's accounting regulations, rents received for the use by others of land, buildings, and other property devoted to electric operations by the utility should be recorded in Account 454. UGIU's accounting practice of recording these revenues in Account 418 did not impact the annual transmission revenue requirement computation since UGIU appropriately included these rental revenues as a revenue credit for wholesale formula rate purposes.

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[17] PJM, Intra-PJM Tariffs, OATT, ATT H-8C, OATT Attachment H-8C – UGI (4.0.0), Attachment 3, Note 3.

Recommendations

We recommend that UGIU:

28. Develop and implement procedures and policies to track, report, review, and account for wholesale transmission revenues consistent with Commission accounting and ratemaking requirements.

29. Provide training to staff on the revised accounting and wholesale transmission revenue procedures. Also, develop a training program that supports the provision of periodic training in this area, as needed.

30. Perform an analysis of rental income accounts to identify revenues that were not properly credited to wholesale transmission customers through UGIU's transmission formula rates for the audit period. Provide the results of the analysis to audit staff within 60 days of the date of issuance of the audit report.

31. Submit a refund analysis to DAA, within 60 days of receiving the audit report, that explains and details the following: (1) calculation of refunds that include the amount of inappropriate recoveries during the audit period that resulted from the exclusion of revenue credits plus interest; (2) determinative components of the refund; (3) refund method; (4) period(s) refunds will be made.

32. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

33. Refund the amounts disclosed in the refund report to wholesale transmission customers with interest calculated in accordance with section 35.19a of the Commission's regulations.

6. Accounting for Affiliate Transactions

UGIU misclassified various expenses associated with services provided by its parent company in Account 923, Outside Services Employed. Also, UGIU did not consistently apply its internally calculated, cost allocation percentages used to allocate costs between UGIU's electric utility business and its gas utility business. These allocation errors resulted in improper amounts being included in UGIU's wholesale transmission formula rate.

Pertinent Guidance

- 18 C.F.R. Part 101, General Instruction No. 14, Transactions With Associated Companies (Major Utility), states:

> Each utility shall keep its accounts and records so as to be able to furnish accurately and expeditiously statements of all transactions with associated companies. The statements may be required to show the general nature of the transactions, the amounts involved therein and the amounts included in each account prescribed herein with respect to such transactions. Transactions with associated companies shall be recorded in the appropriate accounts for transactions of the same nature. Nothing herein contained, however, shall be construed as restraining the utility from subdividing accounts for the purpose of recording separately transactions with associated companies.

Background

UGI Corporation is a centralized service and administrative organization that provides support services to its affiliates pursuant to a service agreement. Per the service agreement, UGI Corporation provides services, such as cash management/treasury, tax, internal auditing, human resources, investor relations, technical accounting and external reporting, and risk management services, to UGIU and the other affiliates. UGI Corporation bills UGIU and the other affiliates at cost for services provided. Additionally, UGIU operates a regulated natural gas distribution business and an electric utility business and hence allocates common service costs between the two business segments using the Modified Wisconsin Formula.[18]

[18] The Modified Wisconsin Formula measures relative size of the business segment in order to allocate common expenses based upon the activity of each business segment (using revenues and expenses as measures of such activity) as well as the amount of tangible assets employed in the operations of the business segment.

Audit staff performed tests to determine whether costs allocated by UGI Corporation to UGIU were appropriately allocated and whether UGIU appropriately recorded those allocated costs in accordance with the Commission's accounting regulations. In addition, audit staff performed tests to determine whether UGIU appropriately applied its internally developed allocation percentages for allocating common expenses between its electric and gas utility businesses. Based on audit staff's testing, audit staff identified two issues relating to UGIU's accounting for allocated services billed from UGI Corporation, and misapplication of UGIU's allocation percentages used to allocate common costs between its electric and gas utility businesses.

Accounting for Allocated Costs

UGIU misclassified various A&G expenses billed by UGI Corporation in Account 923, Outside Services Employed, instead of recording the costs in the appropriate USofA account based on the nature of the services provided by UGI Corporation. UGIU's accounting practice was to record support service costs from UGI Corporation in Account 923. UGIU viewed allocated costs from UGI Corporation as costs that would be paid to an outside party if UGI Corporation were not providing the services. Additionally, UGIU did not receive details of the nature of the expenses billed by UGI Corporation in order to record the costs in the appropriate USofA account.

Audit staff requested details of the corporate service costs provided by UGI Corporation in 2017 and reviewed the nature of the costs. Audit staff found that the majority of the costs from UGI Corporation recorded in Account 923 were related to costs other than outside services. For example, computer software purchases and supplies were recorded in Account 923 but are more appropriate in Account 921, Office Supplies and Expenses, based on the nature of the cost. In accordance with General Instruction No. 14, Transactions With Associated Companies, UGIU should have recorded these expenses allocated from UGI Corporation in the appropriate account based on the nature of the expense.

UGIU Allocations

UGIU did not consistently apply its internally calculated, cost allocation percentages used to allocate costs between its electric utility and gas utility businesses. Audit staff tested sample charges UGIU recorded in its A&G accounts in order to determine whether UGIU appropriately allocated common expenses between its electric and gas utility businesses. Audit staff discovered, through an assessment of the sampled data, that UGIU used incorrect or outdated allocation percentages to record costs in the A&G accounts. The use of incorrect allocation percentages resulted in over or under allocation of common costs from year to year between the electric and gas utility businesses. For example, UGIU used the incorrect allocation percentage to allocate pension costs recorded in Account 926, Employee Pensions and Benefits, in 2017 and 2018. This resulted in under allocation of pension costs by $177,067 in 2017 and over allocation by $220,774 in 2018 to the electric utility business. As a result of the allocation errors, UGIU may have overbilled wholesale transmission customers during the audit period.

Recommendations

We recommend that UGIU:

34. Revise and implement procedures and policies to track, report, review, and account for UGI Corporation allocated expenses consistent with Commission accounting requirements.

35. Revise and implement procedures, polices and controls to ensure the correct allocation factors are used to calculate and allocate common expenses recorded in the A&G accounts for the electric utility business.

36. Train staff on the procedures and policies and provide periodic training, as needed.

37. Perform an analysis of A&G expense accounts to identify common expenses that were allocated using the incorrect allocation percentages during the audit period. Provide the results of the analysis to audit staff within 60 days of the date of issuance of the audit report.

38. Submit a refund analysis to DAA, within 60 days of receiving the audit report, that explains and details the following: (1) calculation of refunds that include the amount of inappropriate recoveries during the audit period that resulted from the improper allocation of common expenses recorded in A&G accounts as identified pursuant to the analysis performed in response to Recommendation No. 43, plus interest; (2) determinative components of the refund; (3) refund method; and (4) period(s) refunds will be made.

39. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

40. Refund the amounts disclosed in the refund report to wholesale transmission customers with interest calculated in accordance with section 35.19a of the Commission's regulations.

7. Accounting for Administrative and General Expenses

UGIU improperly recorded various A&G expenses in a manner contrary to the Commission's accounting regulations. As a result, UGIU overbilled wholesale transmission customers.

Pertinent Guidance

- 18 C.F.R. Part 101, Account 426.1, Donations, states:

  This account shall include all payments or donations for charitable, social or community welfare purposes.

- 18 C.F.R. Part 101, Account 426.4, Expenditures for Certain Civic, Political and Related Activities, states:

  This account shall include expenditures for the purpose of influencing public opinion with respect to the election or appointment of public officials, referenda, legislation, or ordinances (either with respect to the possible adoption of new referenda, legislation or ordinances or repeal or modification of existing referenda, legislation or ordinances) or approval, modification, or revocation of franchises; or for the purpose of influencing the decisions of public officials, but shall not include such expenditures which are directly related to appearances before regulatory or other governmental bodies in connection with the reporting utility's existing or proposed operations.

- 18 C.F.R. Part 101, Account 913, Advertising Expenses (Major Only), states in part:

  This account shall include the cost of labor, materials used and expenses incurred in advertising designed to promote or retain the use of utility service, except advertising the sale of merchandise by the utility.

Background

Audit staff tested a sample of charges recorded in A&G accounts to determine whether the charges were accounted for in accordance with Commission accounting requirements. Audit staff examined UGIU's invoicing and accounts payable processes, assessed supporting documentation, and interviewed employees who performed relevant accounting functions. Audit staff found that UGIU misclassified costs associated with advertising, charitable donations, lobbying, and legal expenses, which led to the inclusion of these costs in the wholesale transmission formula rate.

Advertising

UGIU incurred costs for various print and media advertising related to newsletter publication and mailing, safety and low-income assistance programs and recorded these costs in Account 923, Outside Services Employed. UGIU conveyed that these advertising costs were improperly recorded in Account 923 and should have been recorded in Account 913, Advertising Expenses. Per Commission accounting requirements, advertising expense should be recorded in specific advertising accounts including Account 913. UGIU's wholesale transmission formula rate includes Account 923 in the computation of its wholesale transmission revenue requirement. Audit staff found that portions of the advertising expenses in Account 923 were included in the annual transmission revenue requirements and resulting billings to wholesale transmission customers. Consequently, certain advertising costs were improperly included in wholesale transmission rates.

Charitable Donations

UGIU contributed to a STEM educational program and also matched employee charitable donations to other charitable organizations. UGIU recorded the STEM contribution in Account 921, Office Supplies and Expenses, and the employee matching contributions in Account 926. Per Commission accounting requirements, charitable contributions should be recorded in Account 426.1, Donations, which is not included in UGIU's wholesale transmission formula rate. UGIU's wholesale transmission formula rate includes Accounts 921 and 926 in the computation of its wholesale transmission revenue requirement. Audit staff found that portions of the charitable contributions in Accounts 921 and 926 were included in the transmission revenue requirements and resulting billings to wholesale transmission customers. Consequently, charitable contribution costs were improperly included in wholesale transmission rates.

Lobbying Expenses and Activities

UGIU paid membership dues to the Pennsylvania Chamber of Business and Industry and recorded the cost in Account 930.2, Miscellaneous General Expenses, and Account 165, Prepayments. Audit staff reviewed the invoices for these payments and discovered that a portion of the invoiced amount was related to lobbying activities. In accordance with Commission accounting requirements, costs related to lobbying activities should be recorded in Account 426.4, Expenditures for Certain Civic, Political and Related Activities, which is not included in UGIU's wholesale transmission formula rate. UGIU's wholesale transmission formula rate does include Accounts 930.2 and 165 in the computation of its annual transmission revenue requirement. Audit staff found that portions of the lobbying costs in Accounts 930.2 and 165 were included in the transmission revenue requirements and resulting billings to wholesale transmission customers. Consequently, lobbying costs were improperly included in wholesale transmission rates.

Legal Expenses

UGIU incurred legal costs related to grievance matters for its gas utility business employees. Audit staff discovered, through an assessment of the sampled data and representations by UGIU, that it charged the gas division's legal costs of $4,436 in Account 923, to the electric utility business. Since the legal expenses were associated with UGIU's gas utility operations, UGIU should have recorded the cost directly to the gas utility business. UGIU's wholesale transmission formula rate includes Account 923 in the computation of its annual transmission revenue requirement. Audit staff found that portions of the legal expenses associated with UGIU's gas utility business in Account 923 were included in the transmission revenue requirements and resulting billings to wholesale transmission customers. Consequently, legal expenses associated with UGIU's gas utility business were improperly included in wholesale transmission rates.

O&M Expenses

UGIU improperly accounted for a distribution-related O&M cost in Account 930.2. Audit staff's review of a sample of A&G costs found that a distribution-related maintenance cost was recorded in Account 930.2. In accordance with Commission accounting requirements, costs related to the distribution function of the business should be recorded in the specific distribution O&M accounts. UGIU's wholesale transmission formula rate includes Account 930.2 in the computation of its annual transmission revenue requirement. Audit staff found that portions of the distribution O&M costs in Account 930.2 were included in the transmission revenue requirements and resulting billings to wholesale transmission customers. Consequently, distribution O&M costs were improperly included in wholesale transmission rates.

Other A&G Costs

UGIU misclassified Company subscriptions, cybersecurity insurance, and payroll costs in various A&G expense accounts. Audit staff reviewed selected transactions to determine whether UGIU complied with the Commission's accounting regulations for A&G expenses. Audit staff discovered that UGIU recorded software subscriptions in Account 925, Injuries and Damages, cybersecurity insurance in Account 930.2, and labor costs relating to administration of employee pensions and benefits in Account 926. In accordance with the Commission's accounting requirements, the subscriptions should have been recorded in Account 930.2, the cybersecurity insurance in Account 924, Property Insurance, and the labor costs related to administration of employee pensions and benefits in Account 920, Administrative and General Salaries. Under UGIU's wholesale transmission formula rate, costs reported in Account 924 are allocated using a net plant allocator while all other A&G expense accounts are allocated using a wages and salary allocator to determine the annual transmission revenue requirements. Therefore, misclassifications in the A&G expense accounts that include Account 924 impact the transmission revenue requirement and billings to transmission customers.

Conclusion

Due to UGIU's accounting procedures for recording advertising, charitable contributions, lobbying expenses, legal expenses, distribution O&M costs, and certain

A&G expenses, the Company improperly included portions of these costs in its wholesale transmission customer billings.

Recommendations

We recommend that UGIU:

41. Revise policies and procedures to ensure that UGIU properly accounts for expenditures in its books and records.

42. Provide training to its staff on the revised procedures for properly accounting for expenditures in UGIU's books and records. Also, develop a training program that supports the provision of periodic training in this area, as needed.

43. Perform an analysis of A&G expense accounts to identify expenses that were inappropriately recovered through UGIU's transmission formula rate and the related customer billings, such as advertising, donations, lobbying, distribution O&M costs, legal costs, and asset insurance improperly charged to accounts included in the transmission formula rate during the audit period. Provide the results of the analysis to audit staff within 60 days of the date of issuance of the audit report.

44. Submit a refund analysis to DAA, within 60 days of receiving the audit report, that explains and details the following: (1) calculation of refunds that include the amount of inappropriate recoveries during the audit period that resulted from the improper accounting for expenses recorded in A&G accounts as identified pursuant to the analysis performed in response to Recommendation No. 43, plus interest; (2) determinative components of the refund; (3) refund method; and (4) period(s) refunds will be made.

45. File a refund report with the Commission after receiving DAA's assessment of the refund analysis.

46. Refund the amounts disclosed in the refund report to wholesale transmission customers with interest calculated in accordance with section 35.19a of the Commission's regulations.

8. Filing of Depreciation Rates with the Commission

UGIU did not file its depreciation rate schedule with the Commission when depreciation rates were changed. This hindered the Commission's and other interested parties' ability to timely review and monitor UGIU's depreciation rates, which impact prices charged for wholesale transmission services through the formula rate.

Pertinent Guidance

- Order No. 618, *Depreciation Accounting*, at footnote 25, states in part:

> To change prices charged for power sales or transmission services (whether determined by stated rates or formula rates) to reflect a change in depreciation, a utility would first have to make a filing with us, pursuant to sections 205 or 206, 16 U.S.C. 824d, 824e, as appropriate, to that effect.[19]

- 18 C.F.R. § 35.13(a) (2020) states in part:

> *General rule*. Every public utility shall file the information required by this section, as applicable, at the time it files with the Commission under § 35.1 all or part of a rate schedule, tariff or service agreement to supersede or otherwise change the provisions of a rate schedule, tariff or service agreement filed with the Commission under § 35.1. Any petition filed under § 385.207 of this chapter for waiver of any provision of this section shall specifically identify the requirement that the applicant wishes the Commission to waive.

- 18 C.F.R. § 35.13(h)(10) (2020) states in part:

> Statement AJ—Depreciation and amortization expenses. Statement AJ consists of statements of depreciation and amortization expenses for Period I and Period II.
>
> (iv) For Period I and Period II, the utility shall show the annual depreciation rate applicable to each function and subfunction for which depreciation expense is reported. The utility shall indicate the bases upon which the depreciation rates were established. If the depreciation rates used for Period I or Period II data differ from those employed to support the utility's prior approved jurisdictional

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[19] *Depreciation Accounting*, Order No. 618, 92 FERC ¶ 61,078, FERC Stats. & Regs. ¶ 31,104, at 31,695 n.25 (2000).

electric rate, the utility shall include in or append to Statement AJ detailed studies in support of such changes. These detailed studies shall include:

(A) Copies of any reports or analyses prepared by any independent consultant or utility personnel to support the proposed depreciation rates; and

(B) A detailed capital recovery study showing by primary account the depreciation base, accumulated provision for depreciation, cost of removal, net salvage, estimated service life, attained age of survivors, accrual rate, and annual depreciation expense.

Background

Audit staff evaluated UGIU's depreciation procedures and found that UGIU did not have the depreciation rates used in computing its annual transmission revenue requirement on file with the Commission. Audit staff reviewed and analyzed how UGIU determined the appropriate amounts of depreciation expense, and how those depreciation expense amounts were used to develop wholesale transmission billings. To accomplish this review, audit staff requested UGIU's most recent depreciation rate on file with the Commission. UGIU stated that it did not file depreciation rates with the Commission and that it used its state-approved depreciation rates in the wholesale transmission formula rate computations. Audit staff reviewed the depreciation rates that UGIU actually used for its annual transmission revenue requirement computations and confirmed that UGIU used its state commission-approved depreciation rates in calculating its depreciation expense for book and wholesale transmission formula rate purposes.

Although UGIU filed its depreciation studies and annual depreciation reports with its state commission, it must also comply with Commission requirements and make a filing with the Commission to change prices charged for power sales or transmission services. Further, 18 C.F.R. § 35.13(h)(10) requires that depreciation studies be filed when depreciation rates are changed, and it also requires that these studies be filed in dockets related to the rates affected. Audit staff found that UGIU changed its depreciation rates used for wholesale transmission revenue requirement computations without properly filing those rates with the Commission.

Recommendations

We recommend that UGIU:

47. Develop and implement processes and procedures to ensure that depreciation rates and related studies are filed with the Commission when depreciation rates are changed.

48. File current depreciation studies with the Commission relating to UGIU's current annual transmission revenue requirement within 60 days of issuance of this audit report.

9. FERC Form No. 1 Reporting

UGIU did not properly follow the FERC Form No. 1 instructions and, therefore, did not report all required information in its FERC Form No. 1 filings.

Pertinent Guidance

- 18 C.F.R. § 141.1(b)(2)(iii), which discusses FERC Form No. 1, states:

> This report must be filed with the Federal Energy Regulatory Commission as prescribed in § 385.2011 of this chapter and as indicated in the General Instructions set out in this form, and must be properly completed and verified. Filing on electronic media pursuant to § 385.2011 of this chapter is required.

Background

UGIU is required to report financial and operational information on an annual basis in the FERC Form No. 1, Annual Report of Major Electric Utilities. During fieldwork, audit staff performed a detailed review of UGIU's 2017 and 2018 FERC Form No. 1 reports and evaluated whether UGIU properly followed the requirements and instructions for populating and reporting in the form.

This review entailed a detailed analysis of each page in the 2017 and 2018 FERC Form No. 1 filings, and focused on ensuring that UGIU reported the correct information on the appropriate pages. During this review, audit staff found several instances where UGIU did not accurately report the required information in its 2017 and 2018 FERC Form No. 1s, as follows:

Schedule(s)	Page(s)	Reporting Error
List of Schedules	2-4	The page required UGIU to enter in column (c) the terms "none," "not applicable," or "NA," as appropriate, where no information or amounts have been reported for certain pages. UGIU did not enter those terms for several pages in their 2017 and 2018 FERC Form No. 1s (e.g., pages 202-203, 213, 230, 254, 272-273, etc.).
Other Regulatory Assets	232	Accounts charged for several items on column (d) for 2017 and 2018 forms were listed as various but UGIU did not provide a note to the page to identify the various accounts.
Miscellaneous Deferred debits	233	Accounts charged on column (d) for 2017 and 2018 forms were listed as various although UGIU reported amounts under column (e).

Schedule(s)	Page(s)	Reporting Error
Other Deferred Credits	269	Accounts debited in column (c) for 2017 and 2018 were left blank although UGIU reported amounts under column (d). In addition, UGIU did not report the amortization periods for the items reported on the page.
Accumulated Deferred Income Taxes-Other Property	274-275	Accounts debited under the adjustment column were listed as various on page 275 but UGIU did not provide a note to the page to identify the various accounts.
Other Regulatory Liabilities	278	Accounts credited were not listed for several transactions on the 2017 and 2018 FERC Form No. 1s.
Transmission of Electricity by ISO/RTOs	331	FERC Rate Schedule or Tariff Number was not filled on column (c) of the 2017 and 2018 FERC Form No. 1s.
Monthly Transmission System Peak Load	400	Type of service information was not filled on columns (e) through (j) on the 2017 and 2018 FERC Form No. 1s.
Transactions with Associated Companies	429	A footnote explaining the allocation process used to bill affiliated companies was not provided, contrary to the instruction.

Recommendations

We recommend that UGIU:

49. Revise and strengthen documented policies, procedures, and practices to ensure information reported in the FERC Form No. 1 is correct, accurate, and consistent with the instructions of the form.

50. Provide training to staff on the revised FERC Form No. 1 policies, procedures, and practices. Also, develop a training program that supports the provision of periodic training in this area, as needed.

V. Other Matter

1. Accounting for AFUDC ADIT

UGIU did not record or report in its FERC Form No. 1 deferred income taxes associated with debt and equity AFUDC. UGIU did not record deferred income taxes consistent with the Internal Revenue Service (IRS) uniform capitalization rule for tax purposes regarding AFUDC, which resulted in the same amount of debt and equity AFUDC reported on UGIU's accounting books and Federal tax returns. Had UGIU filed its federal income tax returns in a manner consistent with the IRS's uniform capitalization rule, the resulting deferred income taxes associated with AFUDC debt and equity may have affected UGIU's wholesale transmission formula rate computation.

Background

Audit staff reviewed UGIU's process and policy for accounting for AFUDC. The review included an assessment of UGIU's accounting for the following AFUDC components: equity AFUDC, debt AFUDC, equity AFUDC ADIT, debt AFUDC ADIT, and the equity AFUDC ADIT gross-up. Based on audit staff's review, UGIU recorded equity and debt AFUDC in the appropriate USofA accounts per the Commission's accounting regulations. However, audit staff discovered that UGIU did not report equity AFUDC ADIT, debt AFUDC ADIT, and the equity AFUDC ADIT gross-up (collectively AFUDC ADIT) on its FERC Form No. 1.[20] UGIU stated that it did not report AFUDC ADIT because it did not have a book-to-tax difference associated with debt and equity AFUDC. This means that UGIU applied the Commission's AFUDC accounting rule not only for book purposes but for federal income tax purposes as well.

Under the IRS's uniform capitalization rule,[21] UGIU is required to compute and capitalize debt interest on its federal income tax returns using a methodology that is different from the Commission's AFUDC accounting rule promulgated under Order Nos.

[20] AFUDC ADIT debt and equity arise from timing differences between the method of computing income for tax purposes reporting to the IRS and the method of computing income for book purposes reporting to the Commission.

[21] Treasury Regulation 1.263A-9(a), 26 C.F.R. § 1.263A-9(a) (2020), requires taxpayers to use the avoidable cost method to calculate the amount of interest to be capitalized as part of self-constructed assets under Internal Revenue Code section 263A(f), 26 U.S.C. § 263A(f) (2018).

561 and 561-A.[22] The differences between the IRS's uniform capitalization rule and the Commission's AFUDC accounting rule creates a book-to-tax difference that is recorded on the books of jurisdictional companies as debt AFUDC ADIT. UGIU's application of the Commission's AFUDC accounting rule to its determination of federal income taxes in its tax return led to no difference between the tax and book treatment of debt AFUDC; thus, there was no ADIT to recognize.

In addition, under the IRS uniform capitalization rule, UGIU is restricted from including equity in the cost of constructed plant; however, in accordance with the Commission's AFUDC accounting rule equity costs are includible as part of constructed plant. The differences between the treatment of equity cost pursuant to the IRS's uniform capitalization rule and the Commission's AFUDC accounting rule creates a book-to-tax difference that is typically recorded on the books of jurisdictional companies as equity AFUDC ADIT. UGIU's application of the Commission's AFUDC accounting rule to its determination of federal income taxes in its tax return led to no difference between the tax and book treatment of equity AFUDC; thus, there was no ADIT to recognize.

Based on UGIU's application of the Commission's AFUDC accounting rule and deviation from the IRS rule for capitalizing debt and equity interest, the Company did not have a book-to-tax difference associated with debt and equity AFUDC ADIT and therefore did not record one on its books. If UGIU had implemented the IRS uniform capitalization rule as generally required, it would have had a book to tax difference which under the Commission's accounting requirements is required to be recorded as ADIT in Accounts 282 and 283. Accounts 282 and 283 are inputs to UGIU's wholesale transmission formula rate,[23] where they are wholly or partially included in the computation of UGIU's wholesale transmission revenue requirements and billings to wholesale customers. Audit staff encourages UGIU to comply with the IRS's uniform capitalization rule and report the appropriate amount of deferred income taxes associated with AFUDC debt and equity on its FERC Form No.1.

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[22] Order No. 561, 57 FPC 608 (1977), *reh'g denied*, Order No. 561-A, 59 FPC 1340 (1977), *order on clarification*, 2 FERC ¶ 61,050 (1978).

[23] PJM, Intra-PJM Tariffs, OATT, ATT H-8C, OATT Attachment H-8C – UGI (4.0.0), at Attachment 1 – Accumulated Deferred Income Tax (ADIT) Worksheet.

VI. UGIU's Response to the Draft Audit Report

Energy to do more®

UGI Utilities, Inc.
1 UGI Drive
Denver, PA 17517

Via Electronic Delivery

January 8, 2021

Kristen Fleet
Acting Director and Chief Accountant
Division of Audits and Accounting
Office of Enforcement
Federal Energy Regulatory Commission
888 First Street NE, Room 51-59
Washington, DC 20426

RE: UGI Utilities, Inc.
Docket No. FA20-3-000
Response to January 4, 2021 Draft Audit Report

Dear Ms. Fleet:

In accordance with Part 41 of the regulations of the Federal Energy Regulatory Commission (the "Commission"), please accept on behalf of UGI Utilities, Inc. ("UGIU") this response to your January 4, 2021 letter transmitting the draft audit report in the above-captioned docket ("Draft Audit Report").

As set forth in the attached response, UGIU is accepting many of the Division of Audit and Accounting's ("DAA's") proposed findings and recommendations in the Draft Audit Report and proposes the corrective actions described herein. UGIU's acceptance of several of the DAA's findings and recommendations is without prejudice to, or waiver of its rights, including its right to contest the Commission's authority generally to make retroactive changes to, or require refunds for, rates that have been allowed to go into effect.

Should you have any questions concerning UGIU's response, please direct your questions to Kent D. Murphy, at 610-768-3631, or me, at 717-283-5662.

Sincerely,

DocuSigned by:
Anton Hummer
6B72189E06E9475

Anton Hummer
Controller

ATTACHMENT A

Audit Staff Finding:

1. *Excess Accumulated Deferred Income Tax*

UGIU improperly recorded the excess ADIT related to the 2017 Tax Cuts and Jobs Act in Account 282, Accumulated Deferred Income Taxes – Other Property and Account 190, Accumulated Deferred Income Taxes. In addition, UGIU improperly excluded excess and deficient ADIT, created as a result of the 2017 Tax Cuts and Jobs Act, from its wholesale transmission formula rate computation. As a result, UGIU overstated its annual transmission revenue requirement by approximately $357,476 and overbilled wholesale transmission customers in 2018.

UGIU Response:

UGIU accepts this finding. The Company did not include the excess/deficient ADIT in its 2018 formulary rate because it was awaiting FERC guidance on how the excess should be treated as part of rate base. The Company subsequently included the excess/deficient ADIT in its 2019 and 2020 formulary rate filings upon FERC's issuance of Order No. 864.

Further, UGIU will update its accounting records to reclassify the excess ADIT deferred tax asset by moving it out of FERC account 190, Accumulated Deferred Income Taxes into FERC account 282, "Accumulated deferred income taxes – Other property."

Audit Staff Finding:

2. *Allowance for Funds Used During Construction*

UGIU's method for computing its AFUDC rate was deficient. Specifically, UGIU improperly excluded short-term debt, as the first source of financing construction, in calculating its AFUDC rate. In addition, UGIU improperly included Account 216.1, Unappropriated Undistributed Subsidiary Earnings, and Account 219, Accumulated Other Comprehensive Income, in the equity component to compute its AFUDC rate. Also, UGIU improperly used its fiscal year-end book balance for long-term debt and common equity amounts when computing its AFUDC rate rather than the calendar year-end balances reported in its FERC Form No. 1 during the audit period. As a result, UGIU overaccrued AFUDC amounts included in utility plant accounts by approximately $436,000 from 2017 to 2019 and overbilled wholesale transmission customers.

UGIU Response:

UGIU accepts this finding but would note that the $436,000 identified in the finding applies to both the electric distribution and electric transmission utility plant accounts.

During 2019 UGIU revised its procedures to ensure that it includes short-term debt in the computation of the AFUDC rate for its electric utility business. UGIU will revise its procedures to: ensure its AFUDC rate calculation is consistent with Order No. 561 and other applicable Commission requirements; ensure that Account 216.1 and Account 219 are excluded from the equity components used to derive the AFUDC rate. UGIU's revised procedures will include provisions for training on this topic. UGIU plans to file a request for waiver to continue its practice of using its fiscal year-end balances for common equity, preferred stock and long-term debt balances in its AFUDC rate computation.

Audit Staff Finding:

3. *Postretirement Benefits Other Than Pensions ADIT*

UGIU improperly included ADIT deferred tax asset related to SFAS 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, as an input to its wholesale transmission formula rate contrary to the directives of its tariff. As a result, UGIU overstated the ADIT account 190 balances included in its wholesale transmission formula rate, which led to overstating its annual transmission revenue requirements and overbilling its wholesale transmission customers.

UGIU Response:

UGIU accepts this finding and has since updated its review process and internal controls to mitigate formula errors in future transmission filings as evidenced by the correction of this formula error in the Company's 2020 transmission formulary rate filing.

Audit Staff Finding:

4. *Common Plant O&M Expenses*

UGIU improperly included common plant O&M expenses, that were also included as A&G expenses, in its wholesale transmission formula rate. As a result, UGIU double counted expenses associated with common plant, and consequently, overstated its wholesale transmission revenue requirement by $423,454 during the audit period. This led UGIU to overbill its wholesale transmission customers.

UGIU Response:

UGIU accepts this finding, which will be corrected beginning with our next transmission formulary rate filing.

Audit Staff Finding:

5. *Transmission Revenue Credits*

UGIU understated its revenue credits that were used to reduce the annual transmission revenue requirements calculated by its wholesale transmission formula rate by improperly excluding certain transmission-related revenues recorded in Account 454, Rent from Electric Property. Additionally, UGIU improperly accounted for rental revenue associated with third parties' usage of its utility assets by recording such revenue in Account 418, Nonoperating Rental Income. As a result, UGIU understated the revenue credits includible in its wholesale transmission formula rate, which led to an overstatement of its annual transmission revenue requirements.

UGIU Response:

UGIU accepts this finding. UGIU will develop and implement procedures and policies to track, report, review, and account for wholesale transmission revenues consistent with Commission accounting and ratemaking requirements. UGIU's revised procedures will include provisions for training.

Audit Staff Finding:

6. *Accounting for Affiliate Transactions*

UGIU misclassified various expenses associated with services provided by its parent company in Account 923, Outside Services Employed. Also, UGIU did not consistently apply its internally calculated, cost allocation percentages used to allocate costs between UGIU's electric utility business and its gas utility business. These allocation errors resulted in improper amounts being included in UGIU's wholesale transmission formula rate.

UGIU Response:

UGIU's historical policy considers services provided by UGI Corporation to be Outside Services, as the services provided are primarily legal, treasury, and executive management in nature and are provided by a separate legal entity. UGIU also notes that the suggested changes are classification changes only and would not impact UGIU's wholesale transmission formula rate. UGIU accepts the recommendation, however, the costs of the system enhancements and manual effort that will be needed to report in this manner may outweigh the benefits and the suggested changes and will flow through the upcoming formulary rate filing.

UGIU will revise and implement procedures, policies and controls to ensure the correct allocation factors are used in UGIU's internally calculated cost allocations to ensure correct allocation to the electric utility business. UGIU's revised procedures will include provisions for training. UGIU notes that this finding resulted in an understatement of A&G allocated to the electric utility business and an understatement of its annual transmission revenue requirements of approximately $93,000 which partially offset other refunds noted throughout the audit report.

Audit Staff Finding:

7. *Accounting for Administrative and General Expenses*

UGIU improperly recorded various A&G expenses in a manner contrary to the Commission's accounting regulations. As a result, UGIU overbilled wholesale transmission customers.

UGIU Response:

UGIU accepts this finding. UGIU agrees to revise policies and procedures to ensure that UGIU properly accounts for expenditures in its books and records. UGIU's revised procedures will include provisions for training.

Audit Staff Finding:

8. *Filing of Depreciation Rates with the Commission*

UGIU did not file its depreciation rate schedule with the Commission when depreciation rates were changed. This hindered the Commission's and other interested parties' ability to timely review and monitor UGIU's depreciation rates, which impact prices charged for wholesale transmission services through the formula rate.

UGIU Response:

UGIU accepts this finding and agrees to file current depreciation studies with the Commission relating to UGIU's annual transmission revenue requirement within 60 days of issuance of this audit report.

Audit Staff Finding:

9. *FERC Form No. 1 Reporting*

UGIU did not properly follow the FERC Form No. 1 instructions and, therefore, did not report all required information in its FERC Form No. 1 filings.

Schedule(s)	Page(s)	Reporting Error
List of Schedules	2-4	The page required UGIU to enter in column (c) the terms "none," "not applicable," or "NA," as appropriate, where no information or amounts have been reported for certain pages. UGIU did not enter those terms for several pages in their 2017 and 2018 FERC Form No. 1 filings (e.g., pages 202-203, 213, 230, 254, 272-273, etc.).
Other Regulatory Assets	232	Accounts charged for several items on column (d) for 2017 and 2018 forms were listed as various but UGIU did not provide a note to the page to identify the various accounts.
Miscellaneous Deferred debits	233	Accounts charged on column (d) for 2017 and 2018 forms were listed as various although UGIU reported amounts under column (e).
Other Deferred Credits	269	Accounts debited in column (c) for 2017 and 2018 were left blank although UGIU reported amounts under column (d). In addition, UGIU did not report the amortization periods for the items reported on the page.
Accumulated Deferred Income Taxes – Other Property	274-275	Accounts debited under the adjustment column were listed as various on page 275 but UGIU did not provide a note to the page to identify the various accounts.
Other Regulatory Liabilities	278	Accounts credited were not listed for several transactions on the 2017 and 2018 FERC Form No. 1 filings.
Transmission of Electricity by ISO/RTOs	331	FERC Rate Schedule or Tariff Number was not filled on column (c) of the 2017 and 2018 FERC Form No. 1 filings.
Monthly Transmission System Peak Load	400	Type of service information was not filled on columns (e) through (j) on the 2017 and 2018 FERC Form No. 1 filings.

Transactions with Associated Companies	429	A footnote explaining the allocation process used to bill affiliated companies was not provided, contrary to the instruction.

UGIU Response:

UGIU has updated its policies and procedures to ensure enhanced compliance with the General Instructions set out in FERC Form No. 1 in order to provide complete and accurate reporting pursuant to the instructions of the form. Specifically, the Company made the following changes to its 12/31/2019 Calendar Year End FERC filing:

1. List of Schedules, Pgs. 2-4: All pages which did not include information and/or amounts were marked with "N/A".
2. Other Regulatory Assets, Pg. 232: "Various" was replaced with specific accounts listed in Column (d) or were referenced in an associated footnote.
3. Miscellaneous Deferred debits, Pg. 233: Accounts were included in Column (d) or were referenced in an associated footnote.
4. Oher Deferred Credits, Pg. 269: Accounts Debited were included in Column (c) or were referenced in an associated footnote.
5. Accumulated Deferred Income Taxes-Other Property, Pgs. 274-275: Accounts debited under the adjustment column were specifically identified.
6. Other Regulatory Liabilities, Pg. 278: Accounts credited are shown in column (c) or were referenced in an associated footnote.
7. Transmission of Electricity by ISO/RTOs - This will be corrected as part of the Company's 12/31/20 FERC formulary filing.
8. Monthly Transmission System Peak Load, Pg. 400: Columns (e) through (j) were footnoted with reference "N/A" as applicable.
9. Transactions with Associated Companies, Pg. 429 – Historically, UGI has explained its allocation process as part of its financial statement footnotes to the FERC Form 1. Going forward, the Company will add a footnote to pg. 429 to reference the reader back to the financial statement footnotes to learn about its allocation process used to bill affiliated companies.

UGIU will continue to monitor its policies, procedures, and training and make necessary updates to ensure the information provided on the FERC Form 1 is correct, accurate, and consistent pursuant to the form instructions.

Other Matter:

1. *Accounting for AFUDC ADIT*

UGIU did not record or report in its FERC Form No. 1 deferred income taxes associated with debt AFUDC and equity AFUDC. UGIU did not record deferred income taxes consistent with the Internal Revenue Service (IRS) uniform capitalization method for tax purposes regarding AFUDC, which resulted in the same amount of debt and equity AFUDC reporting on the UGIU's accounting books and Federal tax returns. Had UGIU filed in a manner consistent with the IRS's uniform capitalization method, the resulting deferred income taxes associated with AFUDC debt and equity may have affected UGIU's wholesale transmission formula rate computation.

UGIU Response:

UGIU's tax filings are subject to review and audit by the IRS. In past IRS audits, the IRS has not identified UGIU's tax accounting method in this area as an area of concern. UGI will evaluate whether there are significant benefits that could be obtained by changing its practice on this issue.