

**UGI GAS STATEMENT NO. 9 – HANS G. BELL**

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

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

**Statement No. 9**

**Direct Testimony of  
Hans G. Bell**

**Topics Addressed:   System Operations  
                          Capital Planning  
                          System Reliability and Safety  
                          Environmental Program and  
                          Remediation Costs**

Dated January 19, 2016

1 **I. INTRODUCTION**

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

3 A. My name is Hans G. Bell. My business address is 2525 N. 12th Street, Reading,  
4 Pennsylvania, 19612.

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

7 A. I am employed by UGI Utilities, Inc. (“UGI”) as Vice President of Engineering and  
8 Operations Support.

9  
10 **Q. What are your responsibilities as Vice President of Engineering and Operations  
11 Support?**

12 A. As Vice President of Engineering and Operations Support, I am UGI’s senior executive  
13 accountable for providing technical leadership and strategic direction to all gas utility  
14 engineering and gas technical services functions for UGI and its wholly-owned  
15 subsidiaries UGI Penn Natural Gas, Inc. (“PNG”) and UGI Central Penn Gas, Inc.  
16 (“CPG”), each of which is a certificated natural gas distribution company (“NGDC”).  
17 UGI has both a Gas Division (“UGI Gas”), which is a certificated NGDC, and an Electric  
18 Division (“UGI Electric”), a certificated electric distribution company (“EDC”)  
19 (collectively the “UGI Distribution Companies”). For UGI Gas, CPG, and PNG  
20 (collectively the “UGI NDGCs”), I am responsible for establishing long-term strategic  
21 infrastructure investment plans. For all of the UGI Distribution Companies I am  
22 responsible for developing and managing corresponding annual capital budgets. Under  
23 my direction is the engineering staff, which is accountable for engineering design,  
24 engineering standards, corrosion control, Distribution Integrity Management Program

1 (“DIMP”), Transmission Integrity Management Program (“TIMP”), leak survey,  
2 mapping & records, safety, damage prevention, operator qualification, training, and  
3 environmental programs.  
4

5 **Q. Please describe your educational background and work experience.**

6 A. They are set forth in my resume attached as UGI Gas Exhibit HGB-1 to my testimony.  
7

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

9 A. Yes, I presented testimony in two proceedings before the Pennsylvania Public Utility  
10 Commission (“Commission”) to support the petitions for approval of a Distribution  
11 System Improvement Charge (“DSIC”) for PNG and CPG, at Docket Nos. P-2013-  
12 2397056 and P-2013-2398835, respectively.  
13

14 **Q. What is the purpose of your testimony?**

15 A. I am providing testimony on behalf of UGI Gas. In my testimony I will address the  
16 following topics: (1) UGI Gas’s system operations; (2) UGI Gas’s system reliability and  
17 safety record; and (3) UGI Gas’s environmental program and associated environmental  
18 costs incurred by UGI Gas to address historical environmental liabilities.  
19

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

21 A. Yes, I am sponsoring the following UGI Gas Exhibits: HGB-1 and HGB-2. I am also  
22 sponsoring certain responses to the Commission’s standard filing requirements as  
23 indicated on the master list accompanying this filing.

1 **II. SYSTEM OPERATIONS**

2 **Q. Please provide an overview of UGI Gas's operations.**

3 A. UGI Gas provides natural gas service to approximately 377,000 customers in eastern and  
4 central Pennsylvania through a system consisting of approximately 5,525 miles of gas  
5 distribution mains and 117 miles of natural gas transmission mains as of December 31,  
6 2014.<sup>1</sup> The UGI Gas service territory is split into two non-contiguous regions: a primary  
7 and secondary region. The primary region spans twelve counties: Franklin, Cumberland,  
8 York, Dauphin, Lebanon, Lancaster, Berks, Chester, Montgomery, Lehigh, Bucks, and  
9 Northampton and includes five of Pennsylvania's ten largest cities: Allentown,  
10 Bethlehem, Harrisburg, Lancaster and Reading; along with the suburban communities  
11 surrounding them. The secondary region spans four counties: Schuylkill, Luzerne,  
12 Carbon, and Monroe and is largely made up of rural communities with Hazleton as the  
13 largest city in that area.

14  
15 **Q. Is the UGI Gas service territory supplied by an interstate pipeline?**

16 A. Yes. The primary region is supplied by the Transco pipeline (Leidy and Gulf), as well as  
17 Columbia, and Texas Eastern. The secondary region is only supplied by Transco (Leidy).

18  
19 **Q. How many operations centers support the UGI Gas service territory?**

20 A. UGI Gas maintains operations centers in Bethlehem, Hazleton, Middletown, Lancaster,  
21 and Reading.

22

---

<sup>1</sup> Per 2014 U.S. Department of Transportation Report reflecting mileage on December 31, 2014.

1 **Q. How does UGI Gas staff its operations?**

2 A. UGI Gas is a business division of UGI. As of December 15, 2015, UGI Gas had a total  
3 of 1048 full-time employees, including: 66 at UGI Electric, 832 at UGI Gas, and 140 at  
4 UGI headquarters (Information Systems, Finance, Human Resources, etc.). More than  
5 half of these employees are involved in the physical operation and maintenance of the  
6 transmission and distribution facilities, which includes the construction, operations and  
7 maintenance of mains, services and other facilities, damage prevention and safety, and  
8 pipeline regulatory compliance. A smaller number of employees work primarily to  
9 support UGI Electric operations. The remaining employees are responsible for  
10 administrative duties, marketing, customer service, and credit and collections. UGI  
11 provides various management and support services to its wholly-owned NGDC  
12 subsidiaries, CPG and PNG (e.g., finance and accounting, payroll, gas supply,  
13 engineering, rates, purchasing, fleet, and information technology). UGI and its  
14 subsidiaries also benefit from management and support services provided by the parent  
15 company of UGI Corporation (e.g., insurance, legal, treasury operations, and corporate  
16 governance).

17

18 **III. CAPITAL PLANNING**

19 **Q. Please describe the categories of projects included in capital budget for UGI Gas.**

20 A. The main areas for which UGI Gas develops capital budgets are: (1) replacement and  
21 betterment infrastructure; (2) new business; (3) facilities; (4) Information Technology;  
22 and (5) Supply. The budgeting process is further described in the direct testimony of Ann  
23 P. Kelly (UGI Gas Statement No. 2).

24

1 **Q. How are projects chosen for inclusion in UGI Gas’s capital budget?**

2 A. Replacement and betterment infrastructure is chosen for inclusion in the capital budget  
3 using a risk-based prioritization process. New business projects are chosen based on  
4 projections that in turn are informed by large known customers, and forecasts of new  
5 business, customer conversions, customer counts, and construction and development in  
6 the service territory. Facilities projects are a prioritized set of building-related projects.  
7 Information Technology (“IT”) projects are selected based on need for investment in new  
8 systems and hardware and replacement of old systems and hardware. Supply projects are  
9 selected for inclusion in capital planning based on their ability to maximize the utilization  
10 of upstream interstate supply capacity and react to cost of supply, one example of which  
11 is our attempt to optimize low-cost Marcellus supply.

12  
13 **Q. Please describe the risk-based prioritization process used to evaluate replacement  
14 and betterment infrastructure projects.**

15 A. UGI Gas’s risk-based prioritization process prioritizes the replacement of cast iron and  
16 bare steel pipe, which are most susceptible to failure from corrosion, cracks and leakage.  
17 Where other facilities that are located near projects are determined to be prone to failure,  
18 they will also be prioritized for replacement. As part of its infrastructure upgrade, UGI  
19 Gas replaces associated distribution equipment and installs additional safety and  
20 monitoring equipment that is compatible with the upgraded design. UGI Gas installs  
21 excess flow valves, will replace and potentially relocate meters, and replaces risers, meter  
22 bars, regulator stations and service regulators. UGI Gas’s prioritization of projects for its  
23 capital budgets is consistent with its Long Term Infrastructure Improvement Plan

1 (“LTIIP”) for 2014-2019, approved by the Commission at Docket No. P-2013-2398833  
2 (Opinion and Order entered July 31, 2014).

3  
4 **Q. How does UGI Gas’s actual capital spend compare to budgeted capital spend?**

5 A. In 2013 and 2014, UGI Gas has slightly outspent its budgeted capital. In 2015, the  
6 capital spend was in alignment with the budget as shown on UGI Gas Exhibit HGB-2.

7  
8 **IV. SYSTEM RELIABILITY AND SAFETY**

9 **Q. Please describe the physical composition of UGI Gas’s distribution system.**

10 A. Due to its long operation, the UGI Gas distribution system is comprised of pipeline  
11 facilities composed of a mixture of materials indicative of the industry’s technological  
12 advancement over time. Cast iron mains can be found in the oldest parts of the system.  
13 The industry then transitioned to bare steel and wrought iron piping, which were  
14 prevalent until the 1960s. The first generation of plastic piping was introduced in the  
15 early 1970s. Materials installed since the 1970s include polyethylene (PE) and coated  
16 steel piping. Overall, the UGI distribution is composed of approximately 86.4%  
17 contemporary, post-1970s, materials. This ratio is among the highest of local distribution  
18 companies in Pennsylvania.

19  
20 **Q. Please discuss UGI Gas’s main replacement program.**

21 A. UGI Gas’s main replacement program constitutes a large part of its capital budget. UGI  
22 Gas has been identifying and repairing, improving, or replacing its distribution  
23 infrastructure on an accelerated basis. As I stated above, UGI Gas has a Commission-  
24 approved LTIIP. The LTIIP commits UGI Gas to the replacement of all of its



1 approximately 347 miles of cast iron pipelines over a 13-year period ending in February  
2 2027, and all of its approximately 392 miles of bare steel and wrought iron pipelines over  
3 a 28-year period ending September 2041. UGI Gas also committed to replacing gas  
4 service lines and moving inside regulators to outside on a planned basis in conjunction  
5 with the replacement of the mains to which they are connected. These projects are  
6 “DSIC-eligible,” meaning that they meet the requirements for recovery in a DSIC. As of  
7 December 31, 2014, the remaining mileage of UGI Gas cast iron main declined to 279  
8 miles, and bare steel and wrought iron main declined to 362.5 miles. The 2015 Calendar  
9 year figures will be available February 28, 2016 in UGI Gas’s annual distribution report.

10  
11 **Q. Does UGI Gas track capital investment associated with these DSIC-eligible main**  
12 **replacements?**

13 A. Yes. Though UGI Gas does not currently have a Commission-approved DSIC, UGI Gas  
14 has been tracking DSIC-eligible capital placed in service per calendar year and reporting  
15 that information to the Commission on a voluntary basis in its Annual Asset Optimization  
16 Plan (“AAOP”).

17  
18 **Q. Has UGI Gas so far met its main replacement goals set by its LTIP?**

19 A. Yes. The UGI Gas replacement plan included replacement of approximately 33 miles of  
20 combined cast iron and bare steel mains for 2014, with a combined total goal of 62 miles  
21 of cast iron and bare steel replacement for all of the UGI NGDCs. As stated in the UGI  
22 Gas AAOP, approved by the Commission’s Bureau of Technical Utility Services  
23 (“TUS”) on April 1, 2015 at Docket No. M-2015-2469626, the UGI NGDCs exceeded

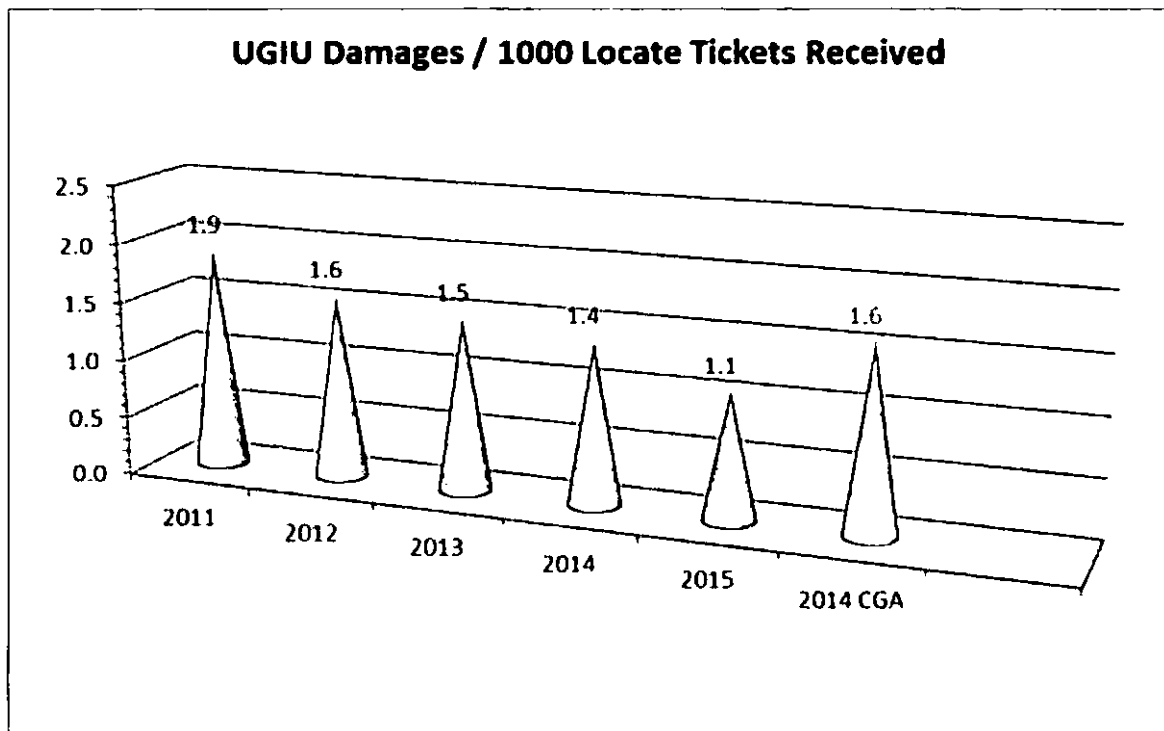
1 their combined total 2014 goal by replacing 62.6 miles of cast iron, bare steel, and  
2 wrought iron mains. UGI Gas in particular exceeded its goal by replacing 40.4 miles of  
3 cast iron, bare steel, and wrought iron mains in 2014. For calendar year 2015, the UGI  
4 NGDCs expect to meet or exceed the total main replacement quantities as set forth in the  
5 current AAOP.

6  
7 **Q. What is UGI Gas's capital investment associated with these main replacements for**  
8 **2014 and 2015?**

9 A. In calendar year 2014, DSIC-eligible capital investment for UGI Gas was \$59 million,  
10 which significantly exceeded UGI Gas's minimum target of \$51.2 million. In 2015, UGI  
11 Gas again anticipates exceeding the minimum target as set forth in the AAOP. Actual  
12 2015 investment placed into service will be provided in the annual update to the AAOP.

13  
14 **Q. Please discuss UGI Gas's efforts to reduce the level of damage to its pipeline**  
15 **facilities that is caused by third parties.**

16 A. UGI Gas directs significant resources towards damage prevention programs and achieves  
17 very favorable results. For the fiscal year ended September 30, 2015, UGI Gas posted an  
18 excavation damage rate of 1.1 damages per 1,000 locates received, a rate significantly  
19 below industry averages and among the lowest in Pennsylvania. UGI Gas has  
20 consistently demonstrated favorable performance in minimizing third party damages as  
21 shown below:



\* The 2014 CGA is the national damage rate taken from the Common Ground Alliance DIRT Report for 2014, which is available at: [www.cga-dirt.com](http://www.cga-dirt.com).

Notably, this rate represents a 21% improvement over the prior year during a period in which the number of locate tickets increased by nearly 9%. Efforts contributing to the damage prevention metrics are a robust public awareness program, systematic outreach to project owners and excavators, and root cause analysis of instances of excavation damage. Additionally, UGI is an active participant in the Pennsylvania One Call System where UGI Gas employee Eric Swartley serves on the board of directors.

**Q. How are leaks classified on the UGI Gas System?**

A. UGI Gas classifies underground leaks as “A”, “B”, and “C”, with “C” being the most severe. An “A” leak is an underground leak that is non-hazardous at the time of detection and can be reasonably expected to remain non-hazardous. “B” leaks are underground leaks that are recognized as being non-hazardous at the time of detection, but justify a

1 scheduled repair based on a probable hazard. “C” leaks are underground leaks that  
2 represent an existing or probable hazard to persons or property, and require immediate  
3 repair or continuous action until the conditions are no longer hazardous.  
4

5 **Q. Has UGI Gas undertaken efforts to reduce leaks on its system?**

6 A. Yes.  
7

8 **Q. Please discuss UGI Gas’s efforts to reduce system leaks.**

9 A. UGI Gas has developed consistent specifications for standardized leak classification  
10 criteria based on ANSI Z380.1, the Guide for Gas Transmission, Distribution and  
11 Gathering Piping Systems, produced by the Accredited Standards Committee (“ASC”)  
12 Z380 Gas Piping Technology Committee (“GPTC”). The adoption of the GPTC based  
13 leak standard made classification criteria more stringent and resulted in an increase in the  
14 number of leaks repaired. As of October 31, 2015, the total number of pending leaks on  
15 the UGI Gas system has decreased by 11% as compared to the prior prior-year period.  
16 Over a five-year time period, which aligns with the leak survey frequency of the full  
17 distribution system, the inventory of pending leaks has decreased by more than 43%.  
18 Given the severe colder than normal winters of 2013-2014 and 2014-2015, the reductions  
19 in leak inventory over this time period is a significant accomplishment. By having a  
20 stricter leak standard and fewer leaks, overall system safety has improved.

21 Another metric indicative of UGI Gas’s system integrity is the number of repaired  
22 leaks per mile of distribution main. UGI Gas had 0.3 repaired leaks per mile of

1 distribution main in 2014. Only National Fuel Gas and wholly-owned subsidiaries UGI  
2 PNG and UGI CPG ranked lower for this metric.

3 As a part of the DIMP, UGI Gas will regularly re-assess all system risks and  
4 leakage trends to determine if additional or accelerated actions are required to further  
5 reduce system leaks.

6  
7 **Q. How is UGI Gas's performance in the area of gas odor response rate?**

8 A. UGI Gas performs very well in the timeliness of emergency response to gas odor  
9 complaints. For the year ended September 30, 2015, UGI Gas posted an emergency  
10 response rate where 96.79% of the time a first responder arrived on premise within 45  
11 minutes of receipt of an odor call. This performance is better than industry averages and  
12 is attributable to factors such as staffing levels and after-hours coverage. It should be  
13 noted that UGI Gas sets performance goals on a 45 minute response whereas most other  
14 distribution companies' goals are based on a one hour response target.

15  
16 **Q. In your opinion does UGI Gas have a good history of employee safety?**

17 A. Yes. The UGI Distribution Companies have a collectively-managed safety program  
18 whose safety statistics are reported on a combined basis. The UGI Distribution  
19 Companies have made some recent improvements in employee safety as measured by  
20 recordable injury rates and motor vehicle accident rates. For the fiscal year ended  
21 September 30, 2015, the companies posted an OSHA recordable incident rate of 2.89, a  
22 31% reduction over the prior year, approximately 12% better than the 2014 industry  
23 average rate of 3.27. In terms of motor vehicle accident rates, the companies posted a

1 rate of 7.66 accidents per million miles driven, a 15% reduction over the prior year, but  
2 approximately comparable to the 2014 industry average rate of 7.70 accidents per million  
3 mile driven.

4  
5 **Q. What actions has UGI undertaken to improve employee safety?**

6 A. The UGI Distribution Companies have undertaken significant efforts to build a safety-  
7 centric culture to better support and enhance employee safety. Encouraging a safety  
8 culture is fundamental to driving safety performance. Some of the strategies  
9 implemented to build safety culture include performing detailed accident reviews,  
10 holding an Employee Safety Summit and implementing enhancements to the employee  
11 safety incentive program.

12  
13 **Q. Please describe the UGI Distribution Companies' accident review process.**

14 A. Supervisory engagement in post-accident reviews ensures consistency in assessing causal  
15 factor trends and in implementing enterprise wide process improvements. Following  
16 each accident or injury, supervisors review and document the circumstances of the  
17 accident with the employee noting any contributing factors. On a monthly basis,  
18 supervisors of employees involved in an accident or personal injury participate in a  
19 conference call to review the circumstances surrounding each instance. The calls help  
20 drive supervisor accountability for safety performance and provide visibility to any  
21 underlying trends. Additionally, metrics on work group safety performance are  
22 incorporated into each supervisor's annual performance review.

23

1 **Q. Please discuss the UGI Employee Safety Summit.**

2 A. In April 2015, just prior to the seasonal ramp up in construction activity, a broad cross-  
3 functional group of over 450 employees participated in the first ever full day safety  
4 summit. The event included a wide variety of safety education sessions covering topics  
5 such as dog bite prevention, electrical safety, and distracted driving. Employee feedback  
6 was overwhelmingly positive. Building upon the success of the initial event, in fiscal  
7 years 2016 and 2017 new groups of employees will be invited to extend attendance to the  
8 full employee population over a 3 year period. Going forward, additional employee-  
9 developed content will be emphasized to further cultivate employee ownership of and  
10 responsibility for safety.

11  
12 **Q. Please describe the UGI Safety Incentive Program.**

13 A. In 2015, the employee safety incentive program was re-designed to emphasize individual  
14 employee engagement in safety. Known as “Making a Difference,” the enhanced  
15 program rewards employees for supporting safety culture through actions such as  
16 demonstrating positive safety behaviors, leading safety meetings, reporting safety issues,  
17 or participating in safety education. In fiscal year 2015, 5,490 individual recognition  
18 cards were redeemed along with 406 peer-nominated safety award nominations.  
19 Advantages of the program include simplicity of administration, customization of reward  
20 redemptions, visibility of acknowledgement, and creation of constructive competition  
21 around advancing safety.

22

1 **V. ENVIRONMENTAL**

2 **Q. Please discuss the environmental program at UGI Gas.**

3 A. The environmental group at UGI Gas is focused on both environmental compliance  
4 programs for current operations and on addressing historical environmental liabilities.  
5 With respect to ongoing compliance activities, UGI Gas has a mercury regulator removal  
6 program in its primary service area. Service locations with mercury regulators are  
7 identified through canvass, and by training meter read and service personnel to recognize  
8 mercury regulators when encountered. The mercury regulators are removed and replaced  
9 with spring-loaded regulators. The program has already completed its activities in the  
10 service area surrounding Lehigh, and is ongoing in Reading, Harrisburg, and Lancaster.  
11 UGI Gas also has a program that changes out heater fluid from ethylene glycol to an  
12 environmentally-friendly, biodegradable propylene glycol. UGI Gas has also been a  
13 partner in the United States Environmental Protection Agency's ("EPA") voluntary  
14 Natural Gas STAR program since the program's inception in 1993. Natural Gas STAR  
15 provides a framework to encourage partner companies to implement methane emissions  
16 reducing technologies and practices, and document their voluntary emission reduction  
17 activities. As discussed earlier in my testimony, UGI Gas places significant emphasis on  
18 reducing system leaks for both safety and environmental reasons.

19

20 **Q. Are there any other significant environmental programs at UGI Gas?**

21 A. Yes, there is also our manufactured gas plant ("MGP") program. As a company with a  
22 history of providing gas service for more than 100 years, UGI Gas has some sites in its  
23 service territory that were formerly used for the purpose of producing manufactured gas  
24 from coal for distribution to utility customers. UGI Gas works to remediate these MGP



1 sites to address any environmental site conditions due to the former manufactured gas  
2 operations.

3  
4 **Q. What types of costs does UGI Gas incur with respect to addressing MGP site**  
5 **conditions?**

6 A. UGI Gas incurs costs attributed to site investigations, remediation, and site restoration.  
7 There also may be costs incurred to obtain an environmental covenant at the site to  
8 prevent certain uses of the site, and miscellaneous costs, as applicable, associated with  
9 transferring the site to a third party (such as with a dedication for public use) once the site  
10 has been restored.

11  
12 **Q. What is UGI Gas's projected spending on the MGP program?**

13 A. UGI Gas has developed a plan to spend \$3-5 million per year as of the end of the fully  
14 projected future test year ending September 30, 2017 ("FPFTY"). This plan is predicated  
15 on a significant increase to UGI Gas's historic level of investigation and remedial activity  
16 to address environmental concerns at former MGP sites. UGI Gas's plans will be  
17 conducted in a manner that is consistent with Pennsylvania Department of Environmental  
18 Protection ("PA DEP") and EPA regulations and requirements.

19  
20 **Q. Please describe UGI Gas's accounting for MGP costs.**

21 A. Historically, UGI Gas has accounted for its environmental remediation expenses as a  
22 component of its annual cost of removal. As such, these expenses were recorded in UGI

1 Gas's accumulated reserve for depreciation and reversed through the annual calculation  
2 of the amortization of net salvage.

3  
4 **Q. Is UGI Gas proposing an alternative treatment for MGP costs in the future?**

5 A. Yes. The treatment of MGP costs is addressed in the direct testimony of Ann P. Kelly  
6 (UGI Gas Statement No. 2).

7  
8 **Q. For which sites is UGI Gas currently incurring costs to address its liability for  
9 historical MGP operations?**

10 A. There are three UGI Gas MGP sites for which the Company is currently incurring costs.  
11 These sites include the former Columbia MGP Site in Columbia, Pennsylvania, the  
12 former Allentown MGP Site in Allentown, Pennsylvania, and the former Mount Joy  
13 MGP Site in Mount Joy, Pennsylvania.

14  
15 **Q. What is UGI Gas's goal for restoration of the MGP sites?**

16 A. UGI Gas strives to restore each site so that it constitutes a beneficial reuse and becomes  
17 an asset to the community. With respect to the Mount Joy MGP Site, for example, we  
18 have proposed to develop a portion of the restored site as a public park for use by the  
19 residents of Mount Joy Borough.

20  
21 **Q. What future activities has UGI Gas planned to address MGP impacts?**

22 A. UGI Gas plans to take an approach that is consistent with the approach historically  
23 embraced by its subsidiary utilities CPG and PNG. CPG and PNG each have a multi-site

1 Consent Order and Agreement (“COA”) with PA DEP that govern remedial activities on  
2 the former MGP sites listed in the COAs. CPG and PNGs activities under the COA are  
3 closely monitored by the PA DEP. A total of 33 sites are listed under the two COAs – 22  
4 under the CPG COA and 11 under the PNG COA. In accordance with the COAs, CPG  
5 and PNG are each required to either obtain a certain number of points per calendar year  
6 based on defined eligible remedial activities or make expenditures in an amount equal to  
7 an annual environmental cost cap of \$1.75 million for CPG and \$1.1 million for PNG.

8 UGI Gas has identified a number of former MGP sites that were previously used  
9 to render gas service to customers in Pennsylvania. UGI Gas, while currently not under a  
10 COA approved by the PA DEP, has developed a remedial plan for its former MGP sites  
11 that contemplates an expenditure of approximately \$3-5 million per year over the next  
12 several years on PA DEP monitored activities.

13  
14 **Q. Has UGI Gas been recognized for its environmental stewardship?**

15 A. Yes. A 2015 survey by Cogent Reports™, a division of Market Strategies International,  
16 included UGI among 36 utility companies nationwide that were named “Environmental  
17 Champions.” Cogent surveyed more than 25,000 residential electric, natural gas, and  
18 combination utility customers of the 125 largest U.S. companies. Our high ranking in  
19 this survey demonstrates that our customers recognize our commitment to the  
20 environment.

21 Additionally, in 2012, UGI, and UGI Gas’s current Environmental Manager  
22 Anthony Rymar received the Pennsylvania Environmental Council’s Governor’s Award  
23 for Environmental Excellence. We were nominated for the award by PA DEP staff. In

1           bestowing the award, the Pennsylvania Environmental Council recognized Mr. Rymar  
2           and UGI as consistently exhibiting a management philosophy that assures former  
3           manufactured gas plants are remediated to a level that protects human health and the  
4           environment while ensuring sites are beneficially re-used.

5

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

7   **A.    Yes, it does.**

**UGI GAS EXHIBIT HGB-1**

## **Hans G. Bell, P.E.**

hbell@ugi.com

### **Summary**

Engineering executive with 20 years of broad experience in gas transmission and distribution operations including engineering design, asset integrity management, regulatory compliance, capital budgeting, and project management.

### **Education**

#### **Keller Graduate School of Management, Chicago, Illinois**

*Masters of Business Administration, Graduated with Distinction, 2000*

Concentration in Finance

#### **University of Illinois, Champaign, Illinois**

*Bachelor of Science in Civil Engineering, 1996*

Concentration in Construction Management

### **Experience**

#### **UGI Utilities, Reading, Pennsylvania**

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

Senior engineering leader responsible for establishing technical strategy and executing infrastructure programs to ensure safe, reliable, and cost effective natural gas service for a utility serving more than 600,000 customers in Pennsylvania and Maryland.

- Accountable for accelerated infrastructure replacement programs, capital budgeting (~\$300M), contractor management, corrosion control, damage prevention, employee safety, engineering design, transmission & distribution integrity, regulatory compliance, training, and all related technical support functions
- Accountable for planning and execution of annual cast iron / bare steel replacement program covering > 62 miles per year
- Primary regulatory witness and author for Long Term Infrastructure Improvement Plans
- Responsible for management and development of professional and technical support staff of over 110 employees

#### **AGL Resources, Naperville, Illinois**

Over 17 years at AGL Resources (Nicor Gas) I advanced through positions of increasing responsibility beginning at entry level and concluding as Managing Director of Engineering.

##### *Managing Director, Engineering*

*2012-2013*

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

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

- Accountable for all gas utility engineering support departments with over 50 professional and technical staff including Engineering Design, Transmission Integrity, Distribution Integrity, System Planning, Geographic Information Systems, Measurement, and Technical Services (Lab)
- Accountable for Transmission & Distribution Integrity Management compliance, audits, plans, program management, and project portfolio optimization

- Accountable for Engineering Design and project management for distribution, storage, and transmission projects from initial scope, detailed design, cost estimates, sourcing, and contract negotiation
- Managed multiple interdisciplinary project teams executing complex multi-million dollar storage and transmission projects
- Managed regulatory relationships with State (ICC) and Federal Pipeline Safety Agencies (PHMSA). Provided technical support to incident investigations
- Developed strategic approaches to addressing pipeline safety legislation including MAOP affirmation
- Developed engineering integration plans for AGL Resources– Nicor Gas merger including, organizational design, critical process mapping, accountabilities, budgeting, and staffing

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

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

*Manager Engineering Design* 2004- 2007

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

*Project Manager – Transmission Pipeline Integrity* 2003 –2004

- Responsible for development and implementation of pipeline integrity management program to maintain regulatory compliance with the Pipeline Safety Act of 2002
- Managed GIS conversion project for 1150 mile natural gas transmission system
- Developed risk management program for prioritization of pipeline integrity assessments in high consequence areas
- Determined pipeline assessment project schedules including long term operating expense and capital budgets

*Region Manager – Distribution* 2001 – 2003

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

*Supervisor of Distribution Planning* 2000 - 2001

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

*Project Engineer* 1996 –2000

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

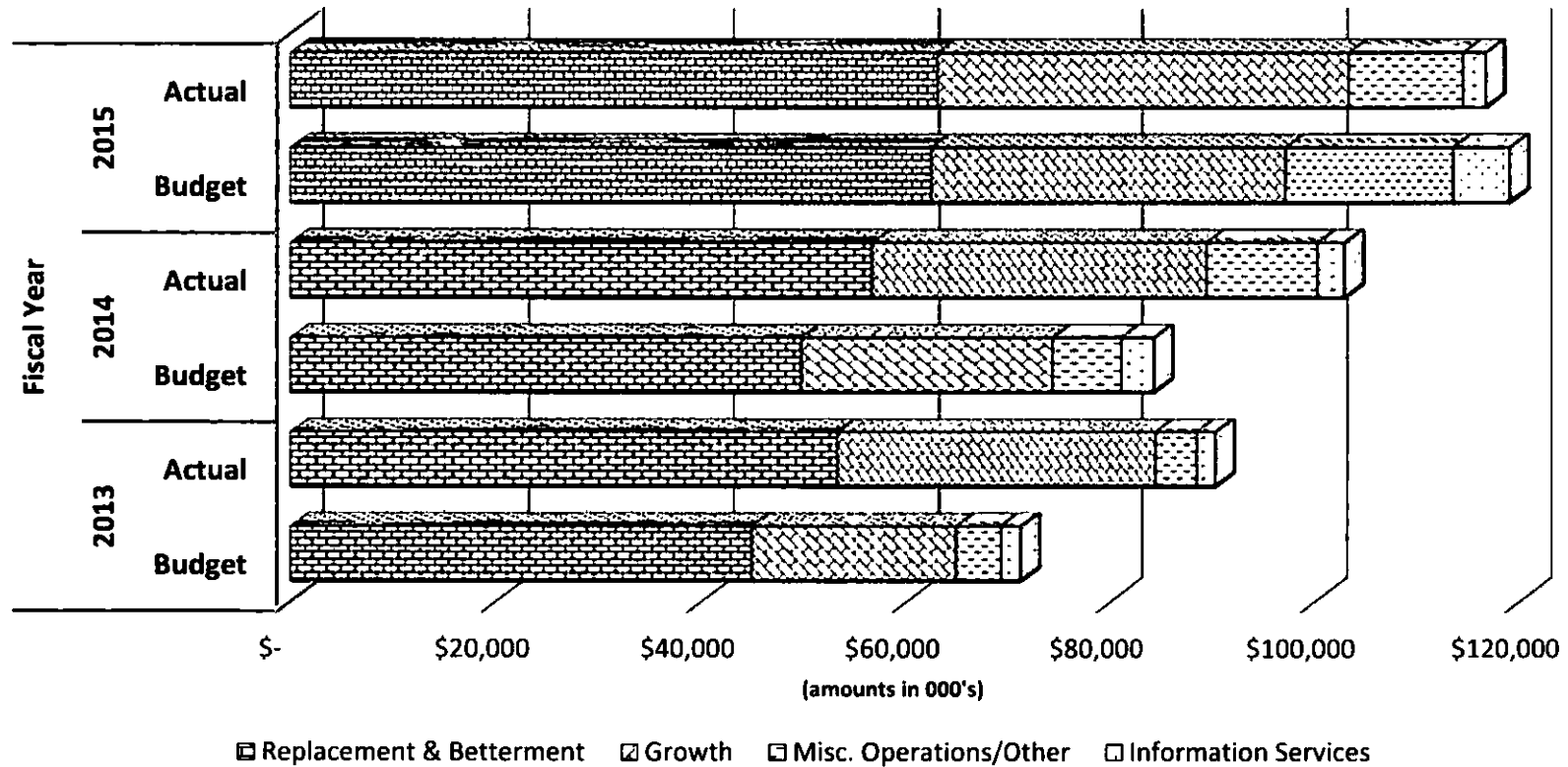
**Professional Affiliations**

- Licensed Professional Engineer, State of Illinois, License # 62054443
- Member Society of Gas Operators – 2015 to present
- American Gas Association Bronze Award of Merit 2012
- Member American Gas Association Leadership Council
- Chair American Gas Association Distribution & Transmission Engineering Committee 2012 - 2013
- Speaker at PHMSA Distribution Integrity Management Workshop 2011
- Co-chair of Southern Gas Association Distribution Engineering Committee 2007-2010



**UGI GAS EXHIBIT HGB-2**

## UGI GAS 2013-2015 CAPITAL HISTORY



**UGI GAS STATEMENT NO. 10 – NICOLE M. MCKINNEY**

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

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

**Statement No. 10**

**Direct Testimony of  
Nicole M. McKinney**

**Topics Addressed:      Taxes and Tax Adjustments**

Dated: January 19, 2016

1 **I. INTRODUCTION AND QUALIFICATIONS**

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

3 A. My name is Nicole M. McKinney. My business address is 2525 North 12th Street,  
4 Suite 360, Reading, PA, 19612-2677.

5

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

7 A. I am employed by UGI Utilities, Inc. ("UGI") as Principal Tax Analyst. UGI is a  
8 subsidiary of UGI Corporation ("UGI Corp."). UGI has two separate operating  
9 divisions: UGI Utilities, Inc. – Gas Division ("UGI Gas" or the "Company") and  
10 UGI Utilities, Inc. – Electric Division.

11

12 **Q. What are your principal duties and responsibilities as Principal Tax  
13 Analyst?**

14 A. My primary duties as the Principal Tax Analyst include the preparation of tax data  
15 to be reported in UGI's various United States Securities and Exchange  
16 Commission and regulatory filings, as well as its various federal and state income  
17 and non-income tax return related filings. Additionally, I maintain the current and  
18 deferred income tax accrual and expense accounts, perform tax research, and  
19 assist UGI with tax matters as they arise.

20

21 **Q. What is your educational background?**

22 A. I received a Bachelor of Business Administration in International Business and  
23 Management with a minor in Accounting from Villanova University in 2006. In

1 2007, I completed a Master's Degree of Accountancy from Villanova University. I  
2 am also a Certified Public Accountant.

3  
4 **Q. Please describe your professional experience.**

5 A. I began my career with Andersen Tax (formerly known as WTAS, LLC) in 2006.  
6 In 2010, I joined Baker Tilly Virchow Krause, LLP (formerly known as  
7 ParenteBeard, LLC) as a manager in their middle-market tax practice where I  
8 managed tax compliance engagements, and international and special tax  
9 projects. From 2012-14, I worked as the Federal Domestic Tax Manager for  
10 Dentsply International Inc., overseeing the U.S. federal tax compliance and  
11 income tax accounting processes. In March of 2015, I began working as the  
12 Principal Tax Analyst for UGI.

13  
14 **Q. Please describe the purpose of your testimony.**

15 A. I am providing testimony on behalf of UGI Gas. I will explain the Company's pro  
16 forma tax adjustments to its principal accounting exhibits for the fully projected  
17 future test year ending September 30, 2017 ("FPFTY"). I will also explain the tax  
18 adjustments made to the results of UGI Gas's historic test year ended September  
19 30, 2015 ("HTY") and future test year ending September 30, 2016 ("FTY").

20  
21 **Q. Ms. McKinney, are you sponsoring any exhibits in this proceeding?**

22 A. Yes. Together with other Company witnesses, I am sponsoring portions of UGI  
23 Gas Exhibit A (Fully Projected), UGI Gas Exhibit A (Future) and UGI Gas Exhibit

1 A (Historic) that pertain to tax-related issues. These exhibits comprise UGI Gas's  
2 principal accounting exhibits for the HTY, FTY, and FPFTY. I am also  
3 sponsoring certain responses to the Commission's filing requirements and  
4 standard data requests. Each response identifies the witness sponsoring it.

5  
6 **II. TAX ADJUSTMENTS**

7 **Q. Please provide an overview of UGI Gas's principal accounting exhibits**  
8 **relative to the proposed tax adjustments.**

9 A. As explained in the direct testimony of Ann P. Kelly (UGI Gas Statement No. 2),  
10 UGI Gas's principal accounting exhibit is UGI Gas Exhibit A (Fully Projected),  
11 which includes a presentation for the FPFTY ending September 30, 2017.  
12 Section D of UGI Gas Exhibit A (Fully Projected) presents necessary  
13 adjustments to budgeted levels of expense items and revenues. The pro forma  
14 adjustments related to taxes are summarized in Schedules D-31 through D-34.  
15 These tax adjustments are used to derive UGI Gas's pro forma income at  
16 present and proposed rates as set forth in Schedule A-1 of the same exhibit.

17 UGI Gas Exhibit A (Future) and UGI Gas Exhibit A (Historic) follow the  
18 format of UGI Gas Exhibit A (Fully Projected), but reflect data for the HTY ended  
19 September 30, 2015, and the FTY ending September 30, 2016. This information  
20 is provided in an effort to comply with the Commission's filing requirements and  
21 provides a basis for comparing UGI Gas's FPFTY claims with actual book results  
22 from the HTY and adjusted FTY results. Section D to UGI Gas Exhibit A  
23 (Historic), Schedule D-31, and UGI Gas Exhibit A (Future), Schedule D-31

1 include adjustments that share the same methodology as used in Schedule D-31  
2 of UGI Gas Exhibit A (Fully Projected).

3  
4 **A. TAXES OTHER THAN INCOME TAXES**

5 **Q. How was the provision for taxes-other-than-income taxes ("TOTI")**  
6 **determined for the FPFTY?**

7 A. TOTI amounts were based on the plan year budget, as adjusted for reasonably  
8 known and measurable changes to various payroll and other taxes, as well as  
9 other changes due to changes in headcount as supported by the direct testimony  
10 of Ann P. Kelly (UGI Gas Statement No. 2). Specifically, TOTI includes an  
11 adjustment for the planned phase out of the capital stock tax in the 2016 tax  
12 year. These adjustments are shown on UGI Gas Exhibit A (Fully Projected),  
13 Schedule D-31. The net adjustment of (\$138,000) is brought forward to  
14 Schedule D-3, page 2.

15  
16 **B. INCOME TAXES**

17 **Q. Please discuss the Company's claim for income taxes.**

18 A. Income tax expense for the FPFTY at present and proposed rates is set forth in  
19 UGI Gas Exhibit A (Fully Projected), Schedule D-33. Income taxes are  
20 calculated using the procedures normally followed by the Commission, including  
21 the use of debt interest synchronization, the normalization method for  
22 accelerated depreciation used in the calculation of Federal income taxes, and the  
23 flow through of accelerated depreciation benefits for state tax purposes. UGI  
24 Gas is also proposing to normalize the tax repairs expense deduction for both



1 federal and state tax purposes. The fully adjusted claim for the FPFTY income  
2 tax expenses is shown on UGI Gas Exhibit A (Fully Projected), Schedule D-1.

3  
4 **Q. Please describe the claim for income taxes shown on Schedule D-1, lines**  
5 **18 and 19.**

6 A. The calculation of federal and state income taxes can be found on Schedule D-  
7 33. Schedule D-33 shows the calculation of pro forma income taxes for the  
8 FPFTY at present and proposed rates. Line 1 shows the revenue at present and  
9 proposed rates, while line 2 shows the operating expenses at present and  
10 proposed rates from Schedule D-1. Line 3 reflects operating income before debt  
11 interest is deducted, by netting line 1 from line 2. Debt interest expense is  
12 synchronized using the rate base claim from Schedule C-1, with the cost of debt  
13 and the debt component of UGI Gas's capital structure recommended in the  
14 direct testimony of Paul R. Moul (UGI Gas Statement No. 3) and shown on  
15 Schedule B-7. The resulting interest expense on line 6 is subtracted from net  
16 income before debt interest to calculate base taxable income on line 7.

17 In accordance with established Commission practice, lines 8 through 11 of  
18 Schedule D-33 reduce the base taxable income, for state tax purposes, by the  
19 total difference between accelerated tax depreciation shown on line 8 and the pro  
20 forma book depreciation shown on line 9. The statutory state corporate net  
21 income tax rate (9.99%) was then applied to determine the pro forma state  
22 income tax expenses shown on line 13. Lines 14 through 19 show the federal  
23 income tax expense calculation at current and proposed rates, while line 20

1 sums the state and federal tax expense amounts before application of Deferred  
2 Federal and State Income Taxes. At lines 21 through 28, Deferred Federal and  
3 State Income Taxes are used to increase the pro forma income tax expense at  
4 present and proposed rates with the total calculated amount for income taxes  
5 before the application of other adjustments shown on line 29. Line 30 reflects a  
6 decrease to total tax expense for the amortization of the Company's Investment  
7 Tax Credit, while line 31 reflects the total combined income tax expense after this  
8 adjustment. The amounts of accelerated depreciation cost of removal, repairs  
9 tax deduction, tax basis adjustments to plant, straight line depreciation and book  
10 depreciation used in the determination of income taxes used in this calculation  
11 are summarized on Schedule D-34.

12  
13 **Q. Has the Company reduced federal income tax expense through application**  
14 **of a consolidated tax expense adjustment?**

15 A. No. The company does not believe that such an adjustment is appropriate.  
16 However, in the event a consolidated tax adjustment is adopted by the  
17 Commission, we have included a calculation of such an adjustment using the  
18 modified effective tax rate methodology traditionally used by the Commission in  
19 the response to filing requirement II-A-26.

20

1 **Q. Why did the Company not include a consolidated tax adjustment in the**  
2 **calculation of its income tax expense shown in UGI Gas Exhibit A (Fully**  
3 **Projected)?**

4 A. The Company did not include a consolidated tax adjustment in UGI Gas Exhibit A  
5 (Fully Projected) primarily due to two reasons. First, while the Company  
6 recognizes the legal precedent requiring a utility to reduce its income tax  
7 expense by a proportionate share of certain tax losses experienced by non-utility  
8 members of a consolidated tax group, we do not believe that it is appropriate to  
9 do so as a matter of sound ratemaking policy considering the overwhelming  
10 precedent that holds that utilities may not establish their ratemaking revenue  
11 requirements by including the costs of their unregulated affiliates in utility rates.  
12 As the Company has no expectation that its customers should bear the income  
13 requirement of its non-utility affiliates as an increase to our utility revenue  
14 requirement, our customers should have no expectation that our rates should be  
15 reduced by tax losses generated from the income of our non-utility affiliated  
16 business enterprises. Second, I note that there is legislation pending that would  
17 effectively eliminate the consolidated tax savings adjustment that may be  
18 enacted by the end of the FPFTY.

19  
20 **Q. Please describe the consolidated tax adjustment calculation shown in the**  
21 **response to filing requirement II-A-26.**

22 A. The consolidated tax adjustment shown in the response to filing requirement II-A-  
23 26 is calculated in accordance with Commission practice using the modified

1 effective tax rate method. Under this method, tax losses for existing non-  
2 regulated companies in the consolidated group are aggregated with and  
3 allocated to the companies (both regulated and non-regulated) with taxable  
4 income in proportion to their taxable income.

5 The consolidated tax adjustment shown in the response to filing  
6 requirement II-A-26 was calculated using a three-year average of UGI's income  
7 and the UGI Corp. consolidated group's taxable income that encompasses the  
8 years 2012 to 2014. Companies that are no longer part of the consolidated  
9 group, that are not expected to have recurring losses, or that will exit the  
10 consolidated group during the test year were eliminated from this calculation.  
11 For each of the three years, the adjusted tax losses of non-regulated  
12 corporations in the UGI Corp. consolidated group were summed, and a portion  
13 was allocated to UGI's operations based on the proportion of the UGI taxable  
14 income to all corporations (regulated and non-regulated) with positive taxable  
15 income. Once the allocation percentage was determined, it was applied to the  
16 losses of the consolidated loss companies, and from that figure UGI's percentage  
17 of the consolidated taxable income was used to derive the loss allocable to UGI  
18 for each of the three years in the analysis. The average of these losses was then  
19 allocated between UGI Gas and UGI Electric based on the proportionate share of  
20 each entity's taxable income from the most recently filed federal income tax  
21 return, fiscal year ended September 30, 2014. The allocation to UGI Gas is  
22 \$181,000.

1 **Q. What is the total FPFTY income tax expense for UGI Gas?**

2 A. As shown on Schedule D-33 at line 31, the pro forma tax expense at present  
3 rates is \$13.962 million and the pro forma tax expense at proposed rates for the  
4 FPFTY is \$37.856 million. Again, this figure is not reduced by a consolidated  
5 income tax adjustment.

6  
7 **C. ACCUMULATED DEFERRED INCOME TAXES**

8 **Q. How are Accumulated Deferred Income Taxes (“ADIT”) calculated?**

9 A. Schedule C-6 shows the FPFTY ending balance for federal ADIT at September  
10 30, 2017. This amount is deducted from rate base. The total shown on line 7  
11 reflects the difference in income tax expense for book and tax purposes  
12 attributable to the difference between the accelerated tax depreciation, inclusive  
13 of bonus depreciation, and straight line book depreciation on test year plant  
14 balances, net of offsets associated with contributions in aid of construction. Rate  
15 base has been further reduced by the state regulatory liability associated with our  
16 repairs tax method shown on line 8. As the state tax consequence of  
17 accelerated depreciation is flowed through, there is no associated state ADIT  
18 balance.

19  
20 **Q. What is the amount of the ADIT offset to rate base?**

21 A. As shown on line 9 of Schedule C-6 and on line 6 of Schedule A-1, the ADIT  
22 offset is \$307.196 million, which includes an amount related to the repairs tax  
23 method explained below.

24

1           **D.     REPAIRS TAX METHOD**

2   **Q.     Please explain UGI's accounting treatment of the Repairs Tax Method.**

3   A.     In its tax return for the year ended September 30, 2009, UGI adopted a tax  
4     accounting method to expense as repairs certain items capitalized for book  
5     purposes in accordance with federal tax regulations. As a result of adopting this  
6     method, UGI's (both UGI Gas and UGI Electric operating divisions) federal tax  
7     expense for the year ended September 30, 2009, was reduced by \$25,463,817.

8           UGI has chosen to calculate its federal income tax expense claim,  
9     inclusive of the repairs tax deduction, consistent with normalization. As a result,  
10    the difference between using accelerated tax depreciation versus book  
11    depreciation in the calculation of federal tax expense creates accumulated  
12    deferred income tax. For state income tax purposes, solely with respect to the  
13    repairs tax deduction, UGI has also chosen to calculate its state income tax  
14    expense consistent with normalization. The state ADIT balance associated with  
15    the repairs tax deduction is classified as a regulatory liability. In both the federal  
16    and state instances, the ADIT balance amortizes or unwinds over the remaining  
17    life of the asset. By accounting for the Repairs Tax Method in this way, the  
18    repairs tax deduction flows through to ratepayers over the same period that the  
19    related assets would have been capitalized and depreciated for tax purposes.

20           As noted previously, the Company reduces rate base by the sum of the  
21    federal ADIT balance and the state repair regulatory liability.

22  
23   **Q.     Does this conclude your direct testimony?**

24   A.     Yes, it does.