

UGI Utilities, Inc. Winter Reliability Report - 2012

UGI Utilities Inc. (UGI) operates three natural gas distributions companies in Pennsylvania: UGI Gas Division, UGI Penn Natural Gas and UGI Central Penn Gas. These three gas utilities serve over 587,000 customers in 45 counties across the Commonwealth. Safety and reliability are core values at UGI, and our system design is safe and prepared to meet customers' needs, particularly in the winter months.

UGI has made a substantial investment in infrastructure betterment to enhance the integrity of our system. Approximately 85 percent of UGI's natural gas pipelines are comprised of high-density plastic or coated steel, which are contemporary materials widely used in the natural gas industry. UGI ranks high in Pennsylvania among natural gas utilities for its percentage of contemporary pipe. UGI has made a commitment to replace all remaining cast iron and bare steel mains within 30 years, representing an investment in the range of \$1.2 billion. As part of this commitment, UGI will replace all cast iron main within 14 years.

In addition to UGI's infrastructure betterment program, UGI has made substantial investments in leak detection and other equipment, training and support systems. The Company has also enhanced its communications capabilities and is prepared to reach customers through both traditional channels and social media, particularly in emergency situations.

Operations and Engineering Overview

UGI Operations and Engineering departments play key roles in maintaining the safe and reliable performance of our system, which includes 12,000 miles of distribution mains. In addition to managing the infrastructure betterment program, Operations and Engineering continually assess UGI's system, instituting best practices to ensure system integrity and responding to weather conditions to confirm the system is operating in a safe and reliable manner.

Winter Planning meetings are conducted throughout the Company. These meetings include a review of previous system issues, a discussion on recent growth, interruptible/large customer impacts, and areas forecasted to experience reduced pressures in winter flow conditions based on hydraulic modeling. Communication protocols are reviewed to ensure physical system operation remains consistent with supply contracts.

Emergency Response training sessions are held in preparation for winter activity. Emergency stock levels are reviewed and adjusted if needed. Additional emergency response/repair resources are evaluated seasonally and added to scheduled shifts and on-call rosters during winter months in anticipation of increased activity.

Frost Patrols

UGI has an extensive leak survey and frost patrol that had been significantly enhanced in the past year. Frost patrols are triggered by an accumulated 150 frost degree day threshold, as well as frost observations. Whichever mechanism triggers the frost patrol first effectively begins the process.

Leak surveys are conducted on UGI's entire cast iron system every two weeks from January 1 to March 31. The company also conducts an annual survey of all unprotected metallic services. In addition, a Special Business/Urban Area leak survey is completed each winter.

The Special Business/Urban Area Leak Survey is a walking survey designed to target mains in urban locations, special business areas or high consequence locations. The mains included in this survey are selected based on local system knowledge and/or performance characteristics. Factors considered are proximity to buildings, wall-to-wall paving, the amount and classification of open and repaired leaks, main material and cathodic protection.

Damage Prevention

The most significant risk to UGI's natural gas pipelines system is third-party damage by excavators. UGI has developed a comprehensive program to minimize third-party damage and enhance our own capabilities in locating underground facilities.

In order to prevent damage to our facilities, UGI installs warning tape above all direct buried main and service pipelines. UGI installs locate wire along plastic pipelines to ensure locating capabilities after installation and prior to contractor excavation.

UGI's pipeline awareness program reaches contractors, customers, municipal officials, emergency management personnel and the community through a variety of communications channels, including group meetings and presentations, bill inserts, earned media and advertising, the UGI website, social media and school presentations.

Damage Prevention initiatives also include face-to-face meetings with third parties that strike UGI facilities. For contractors who work for UGI, pre-construction sessions are held to provide information, confirm compliance and set safety expectations. UGI also conducts extensive reviews of its potential contractors to determine their safety record, injury rates, existence of Drug and Alcohol plans and safety administration protocols before awarding contracts.

UGI has been a member of Pennsylvania One Call since 1979 and works collaboratively with Pennsylvania One Call Staff and all stakeholder groups to reduce damages to UGI facilities.

UGI recently trained personnel on newly purchased locate equipment to enhance their skill set and improve facility locating accuracy. This equipment included multi-frequency pipe locators, line tracers and marker ball locators. The total cost of this equipment exceeded \$100,000.

Gas Supply & Planning

With the ongoing development of the Marcellus Shale and other shale regions, gas supplies are plentiful in UGI's market and throughout most of the United States. Last winter's mild temperatures have resulted in a high level of gas storage inventories and storage levels remain high heading into the winter heating season. In fact, the EIA recently reported an all-time high 3.908 TCF for U.S. natural gas storage inventories for the week ending October 26, 2012, which is higher than the 3.772 TCF reported for the same week last year and the 5-year average of 3.649 TCF. This abundance of natural gas supply has suppressed prices for customers. Natural gas prices on the NYMEX peaked in 2008 at approximately \$14/Mcf and have steadily declined since then to a range of between \$2-\$4/Mcf over the last 12 months.

UGI is prepared to meet the demands of its core market customers on the coldest days. UGI contracts for firm supplies to meet the demands of core market customers both on a peak day and for a design cold winter.

UGI's obligation as supplier of last resort for core market customers is met through the procurement of services that are backed by a physical service interconnected with UGI's distribution system. These services include firm transportation, firm storage, firm delivered supply, and firm peaking services from a mix of eleven interstate pipeline companies and four suppliers. Over the last several years, there has been a notable increase in the number of interstate pipeline capacity constraints which have curtailed holders of capacity with non-primary rights. Therefore, UGI's procurement of primary firm asset backed capacity is essential for supply reliability, especially during severe cold.

Another important part of UGI's reliability plan is the diversification of its supply portfolio. The source points for UGI's gas supplies span from the Gulf of Mexico, Louisiana, Texas, and Oklahoma/Panhandle region to the Appalachian Mountains and Marcellus Shale region in Pennsylvania. In addition to having access to a large number of supply locations, these supply locations are very liquid. The high level of liquidity results from the number of parties who have natural gas to sell which in turn increases the reliability of the supply at that location. The diversity and liquidity which UGI has built into its supply portfolio means that UGI will stand a better chance of obtaining alternate supplies if any particular supply source is interrupted. Further, UGI requires strict contractual force majeure provisions to ensure firmness of supply. In the case of storage, UGI buys natural gas and injects it into underground storage fields in the summer. During the winter season, UGI withdraws this gas from the storage fields to supplement base load purchases.

In the event of a natural gas emergency where curtailment may be necessary, UGI follows the procedure as defined in its PUC-approved tariff. UGI's priority will be to preserve service for residential and for firm critical and essential human needs commercial customers. To accomplish this, UGI may interrupt all interruptible customers; issue operational flow orders or daily flow directives; or call for voluntary usage reductions by customers.

Communications and Outreach

UGI's Communications program is designed to keep customers, employees, government officials, the media and other key publics informed of natural gas issues and topics throughout the year. This communications program is particularly vital in cold weather months or during an emergency situation. UGI uses variety of communications channels, including:

- Bill messages and inserts
- UGI website and social media
- Call Center, including outbound dialer
- Earned media and paid advertising
- Personal contact through door-to-door, town meetings, etc.

In the event of a wide spread gas emergency, UGI will take a number of steps, including the potential use of the predictive dialer, to communicate with affected customers; limiting the non-emergency options available in our call center to ensure that emergency-related contacts are handled in a timely fashion; and having all capable employees trained to handle customer calls, which include employees outside the call center, in order to handle higher volumes of contacts that could occur during an emergency. In the event of high volumes of calls, we would also communicate a message on our phone menu indicating the emergency and any pertinent information (in the event that callers have difficulty reaching the call center).UGI may also increase staffing in the call center during the emergency, and expand coverage over a 24x7 schedule. During this time, UGI may also proactively communicate with our customers using the various communications channels described above.

In preparation for the winter heating season, UGI also extensively promotes the availability of customer assistance programs to eligible customers, in particular LIHEAP, a federal heating assistance program. Customers are encouraged to apply for LIHEAP through a variety of means, including:

- Media announcements
- Bill inserts
- Outbound telephone campaigns
- Special mailings
- Website updates that include a link for customers to print a LIHEAP application.
- In addition, all call center representatives attend annual training, and are provided scripts to ensure promotion of LIHEAP on each appropriate customer contact.

In addition to LIHEAP, UGI donates to our company's hardship fund, Operation Share. This is in addition to the donations from our customers, employees and others in the community. Within the past year, UGI updated its website to highlight Operation Share.

Through UGI's Universal Service Programs, we continue to refer eligible customers to our CAP program as soon as we identify the need through contacts in our call centers, our broad network of community-based organizations and other customer contacts. We have continued to conduct various CAP enrollment campaigns to solicit known low income customers for assistance programs.

Each year, UGI completes a cold weather survey of customers whose service has been terminated within the past year through a series of letters, phone calls, and field visits to advise customers of the available funding and programs in order to get service reconnected. The 2012 survey is still underway. However, UGI anticipates the number of accounts to be surveyed will be less than last year. We also will continue to work with our community-based organizations throughout the winter to get service restored for our customers who are without service.

For customers whose service is off, we accept any combination of LIHEAP, Operation Share and crisis grants (if eligible) in order to establish service. In many cases, leveraging assistance funds in this manner limits the customer's contribution for restoration. For customers whose service is in threat of termination, additional efforts are made for payment arrangement-eligible customers who are delinquent. In addition, UGI's acceptance of payment agreement catch-up amounts has limited customer terminations. We offer budget billing and have an existing third party notification program. We have free payment options to customers who enroll in UGI's On-Line bill payment program or auto-deduction program. We recognize customers who are struggling to pay their winter bills may not be comfortable with or have the means to sign up for these programs. We continue to offer a number of flexible ways for customers to pay their bill. We will continue to provide service to customers who are making a good faith effort to pay.

Lastly, UGI also hosts an annual LIURP (Low Income Usage Reduction Program) Contractor's workshop. This is a one-day event that encompasses the many aspects of LIURP and includes the importance of home heating safety. This year's featured theme was Effective Weatherization Auditing Techniques.

Conclusion

UGI has developed an integrated, comprehensive approach to ensure service reliability during both normal winter weather and extraordinary events. Our approach encompasses extensive planning, timely operational execution and a communications plan to inform all affected publics. UGI is well-prepared for the onset of the 2012-2013 winter heating season and is confident that it can safely and reliably serve our customers and our communities.