



Four Penn Center  
1600 John F Kennedy Blvd.  
Philadelphia, PA 19103  
215-587-1000 Main  
215-587-1444 Fax  
www.postschell.com

---

David B. MacGregor

dmacgregor@postschell.com  
215-587-1197 Direct  
215-320-4879 Fax  
File #: 2270/146852

March 30, 2011

Rosemary Chiavetta  
Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street, 2nd Floor North  
P.O. Box 3265  
Harrisburg, PA 17105-3265

**RE: Application of UGI Penn Natural Gas, Inc. for Approval of the Transfer by Sale of  
9.0 Mile Natural Gas Pipeline Appurtenant Facilities and Right of Way, Located in  
Mehoopany, PA  
Docket No. A-2010-2213893**

**Affiliated Interest Filing of UGI Penn Natural Gas, Inc.  
Docket No. G-2010-2213894**

Dear Secretary Chiavetta:

Enclosed please find the Statement of UGI Penn Natural Gas, Inc. in Support of the Joint Stipulation in Settlement Among Office of Trial Staff, Office of Consumer Advocate, and UGI Penn Natural Gas, Inc. in the above-referenced proceeding.

As indicated on the certificate of service, copies have been provided to the parties in the manner indicated.

Respectfully Submitted,

  
David B. MacGregor

DBM/skr

Enclosure

cc: Certificate of Service  
Honorable Dennis J. Buckley

## CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of § 1.54 (relating to service by a participant).

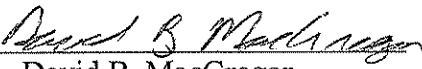
### VIA E-MAIL AND FIRST CLASS MAIL

Charles Daniel Shields  
Office of Trial Staff  
Commonwealth Keystone Building  
400 North Street, 2nd Floor West  
PO Box 3265  
Harrisburg, PA 17105-3265

Sharon Webb  
Office of Small Business Advocate  
Commerce Building  
300 North Second Street, Suite 1102  
Harrisburg, PA 17101

James A. Mullins  
Tanya J. McCloskey  
Office of Consumer Advocate  
555 Walnut Street  
Forum Place, 5th Floor  
Harrisburg, PA 17101-1923

Date: March 30, 2011

  
\_\_\_\_\_  
David B. MacGregor

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Application of UGI Penn Natural Gas, Inc. for Approval of the Transfer by Sale of 9.0 Mile Natural Gas Pipeline, Appurtenant Facilities and Right of Way, Located in Mehoopany, PA	:	:	Docket No. A-2010-2213893
Affiliated Interest Filing of UGI Penn Natural Gas, Inc.	:	:	Docket No. G-2010-2213894

---

**STATEMENT OF UGI PENN NATURAL GAS, INC.  
IN SUPPORT OF THE JOINT STIPULATION IN SETTLEMENT  
AMONG OFFICE OF TRIAL STAFF, OFFICE OF CONSUMER ADVOCATE,  
AND UGI PENN NATURAL GAS, INC.**

---

**TO ADMINISTRATIVE LAW JUDGE DENNIS J. BUCKLEY:**

UGI Penn Natural Gas, Inc. (“PNG” or the “Company”) hereby files this Statement in Support of the Joint Stipulation resolving all issues among the Office of Trial Staff (“OTS”) of the Pennsylvania Public Utility Commission (“Commission”), the Office of Consumer Advocate (“OCA”), and PNG, all parties to the above-captioned proceeding and signatories to the Joint Stipulation (hereinafter, collectively “Stipulating Parties”). PNG respectfully requests that Administrative Law Judge Dennis J. Buckley and (the “ALJ”) and Commission approve the Joint Stipulation, including the terms and conditions thereof, without modification.

The Joint Stipulation, if approved, will resolve all of the issues raised by the Stipulating Parties in this proceeding. Given the diverse interests of the Stipulating Parties and the active role they have taken in this proceeding, the fact that they have resolved their respective issues in this proceeding, in and of itself, provides strong evidence that the Joint Stipulation is reasonable

and in the public interest, particularly. The Joint Stipulation was achieved only after a comprehensive investigation of the transaction proposed by PNG. The Parties to the proceeding undertook formal and informal discovery, many of which had multiple subparts. The Parties to the proceeding filed five rounds of testimony, including PNG's direct testimony, other Parties' direct testimony, rebuttal testimony, surrebuttal testimony, and rejoinder testimony. Moreover, the Stipulating Parties participated in numerous settlement discussions and formal negotiations, which ultimately led to the Joint Stipulation.

The Joint Stipulation reflects a carefully balanced compromise of the interest of the Stipulating Parties in this proceeding. The Stipulating Parties believe that approval of the Joint Stipulation is in the public interest. For these reasons, and the reasons set forth below, the Joint Stipulation is just and reasonable and should be approved. In support thereof, PNG states as follows:

## **I. INTRODUCTION**

PNG is a "public utility" and a "natural gas distribution company" ("NGDC") as those terms are defined in Sections 102 and 2202 of the Code, 66 Pa. C.S. §§ 102, 2202. PNG provides natural gas transmission, distribution, and supplier of last resort services to approximately 157,000 customers throughout its certificated territory.

On December 1, 2010, PNG filed the above-captioned Application requesting a certificate of public convenience from the Commission authorizing the transfer by sale of a nine-mile natural gas pipeline located in located in Auburn, Meshoppen, and Washington, Pennsylvania (the "Auburn Line"), together with its appurtenant facilities and right-of-way, to PNG's affiliate UGI Energy Services, Inc. ("UGIES"). To carry out the contemplated transaction, PNG also filed an affiliated interest agreement requesting Commission approval of

the “Pipeline Interconnection, Operating and Emergency Services Agreement between UGI Energy Services, Inc. and UGI Penn Natural Gas, Inc.” (the “PNG-UGIES Interconnection Agreement”).

The Stipulating Parties held several settlement conferences and exchanged settlement proposals and counter-proposals. As a result of the conferences and the efforts of Stipulating Parties to examine the issues raised, a settlement in principle of all issues raised by OTS, OCA, and PNG was reached prior to the dates set for the evidentiary hearings. OSBA did not join in the Joint Stipulation and reserved one issue for litigation. At the evidentiary hearing on March 16, 2011, the Stipulating Parties advised the ALJ of the settlement in principle. The parties moved their respective testimonies and exhibits into the record without objection.

In the Joint Stipulation, the Stipulating Parties stipulate and agree that the Commission should approve PNG’s proposal to transfer the Auburn Line to UGIES, subject to the terms and conditions set forth in the Joint Stipulation. The Joint Stipulation fully resolves the Stipulating Parties’ issues in this proceeding, and reflects a carefully balanced compromise of the interests of Stipulating Parties in this proceeding. For these reasons set forth below, the Joint Stipulation is just and reasonable and should be approved.

## **II. COMMISSION POLICY FAVORS SETTLEMENT**

Commission policy promotes settlements. *See* 52 Pa. Code § 5.231. Settlements lessen the time and expense the parties must expend litigating a case and, at the same time, conserve precious administrative resources. The Commission has indicated that settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding. *See* 52 Pa. Code § 69.401. In order to accept a settlement, the Commission must first determine that the proposed terms and conditions are in the public interest. *Pa. P.U.C. v. York Water Co.*, Docket

No. R-00049165 (Order entered Oct. 4, 2004); *Pa. P.U.C. v. C.S. Water and Sewer Assocs.*, 74 Pa. P.U.C. 767 (1991). For the following reasons, PNG believes that the Settlement is just, reasonable, and in the public interest and, therefore, should be approved without modification.

### **III. THE JOINT STIPULATION IS IN THE PUBLIC INTEREST.**

The Joint Stipulation reflects a carefully balanced compromise of the interests of all the Parties in this proceeding. The mere fact that Parties with such diverse interests, including OTS, OCA, and PNG, all have reached agreement on a broad array of issues in this proceeding clearly demonstrates that the Joint Stipulation is in the public interest and should be approved.

#### **A. Terms Of The Joint Stipulation**

Under the Joint Stipulation, PNG shall be permitted to transfer ownership of the Auburn Line and related facilities to UGIES at net depreciated original cost. Joint Stipulation ¶ 16(a). PNG also shall be permitted to enter into the PNG-UGIES Interconnection Agreement. Joint Stipulation ¶ 16(b). However, the PNG-UGIES Interconnection Agreement will be revised to remove the \$60,000 annual fee originally proposed in the Application to be paid by PNG to UGIES.

The PNG-UGIES Interconnection Agreement also will be revised to provide for the reversion of ownership of the Auburn Line to PNG in the event that UGIES for any reason ceases to operate the line in a manner that allows PNG to continue to provide distribution service to its customers. The transfer price upon any such reversion of ownership will be at the then depreciated original cost of the facilities originally transferred from PNG to UGIES, but in no event will the transfer price upon reversion exceed the original transfer price. In the event of such reversion of ownership, PNG shall not seek to recover from ratepayers any costs incurred to

alter, reconfigure, reverse, or otherwise change the subject pipeline in response to alterations made by UGIES. Joint Stipulation ¶ 16(f).

The OTS, OCA, and PNG agreed that the Commission may continue to conduct safety inspections of the Auburn Line after the transfer of ownership to UGIES. To the extent that there is a separate assessment on PNG by the Commission to recover the costs of these inspections, UGIES will be obligated to reimburse PNG for any such inspection costs. Joint Stipulation ¶ 16(d).

On the day after the Auburn Line is transferred from PNG to UGIES, PNG will file a tariff supplement with the Commission, to be effective on one day's notice, that reduces PNG's rates to reflect the removal of the Auburn Line from rate base and the removal of all associated expenses, including depreciation and operating and maintenance expenses. Joint Stipulation ¶ 16(e).

The OTS, OCA, and PNG further agreed that the Joint Stipulation is not precedential and shall not be cited regarding the question of whether an entity operating a gathering line is required to file an application for a certificate of public convenience with the Commission to own and operate the gathering line. Joint Stipulation ¶ 16(g).

The proposed transaction as modified by the terms and conditions of the Joint Stipulation is just, reasonable, and provides important substantial public benefits as explained below.

**B. Approval Of The Transaction As Modified By The Joint Stipulation Is In The Public Interest**

The proposed transaction, as modified by the Joint Stipulation, is a unique opportunity that will provide important benefits to PNG, its customers, and the Commonwealth. Under the proposed transaction, as modified by the Joint Stipulation, customers are assured of continued safe and reliable distribution service from the Auburn Line at reduced distribution rates. PNG

has retained the economic value of distribution service from this facility and, at the same time, customers are insulated from the very significant investment risk of converting the line to gathering service. Moreover, this project will provide broad, long-term benefits to PNG customers and the Commonwealth by promoting the development of Marcellus Shale gas resources.

PNG's customers currently served from the Auburn Line will continue to receive PNG's distribution service through distribution taps off of the Line, and PNG will be able to provide service to any new customers along the Auburn Line. PNG will have the ability to draw gas from the Auburn Line on a firm, first priority basis, as it does today. PNG Statement No. 1, pp 5-6; PNG Exhibit RFB-2. Furthermore, the proposed transaction will enhance PNG's ability to provide reliable service to its customers because customers will be provided with another point of delivery, which will help prevent the interruption of service to customers served off of the Line in the event of a curtailment on the Tennessee Line. Tr. at 56-57; *see also* PNG Statement No. 1, pp. 11-12. Importantly, under the terms of the Joint Stipulation, customers will continue to receive this safe and reliable service from the Auburn Line at no cost.

If the Auburn Line project does not proceed or subsequently is abandoned, PNG has the right to reacquire those portions of the Auburn Line required to continue providing distribution service at the then depreciated original cost of the facilities originally transferred from PNG to UGIES, thereby further assuring reliable service to customers. As a result, PNG customers will see no disruption in service, will not pay for any of the substantial capital investment needed to convert the line to gathering operations, and will bear none of the risks should the project fail or not be as profitable as anticipated. PNG Statement 1-R, p. 15; PNG Exhibit RFB-2.



The proposed transaction, subject to the Joint Stipulation, will ensure continued safe operation of the Auburn Line. Under the PNG-UGIES Interconnection Agreement, UGIES is obligated to operate and maintain the Auburn Line in accordance with applicable federal and state laws and regulations designed to ensure the safety, integrity and continuous operation of the Line. Further, under the Joint Stipulation, the Commission may continue to conduct safety inspections of the Auburn Line after the transfer of ownership to UGIES. PNG Statement No. 1, pp 5-6; PNG Exhibit RFB-2; Joint Stipulation ¶ 16(d).

Under the terms of the Joint Stipulation, PNG customers will receive a credit to base rates reflecting the revenue requirement associated with the depreciated original cost of the Auburn Line and associated operating expenses. Joint Stipulation ¶ 16(e). Further, P&G has entered into a 20-year agreement to continue to take distribution service from PNG. This will assure continued annual revenue to PNG, which is very substantially above the cost of serving P&G and which will contribute to PNG's recovery of fixed cost of service from all customers and avoid or defer the need for, and the amount of, future base rate increases. PNG Statement No. 1-R, p. 2.

Although the Auburn Line will be transferred to UGIES, PNG will retain all the commercial benefit of the distribution customers that are connected to the Line. PNG will continue to provide distribution service to P&G and the farm tap customers, and retain the associated revenue from this service, and those customers will still be guaranteed service under PNG's rate schedule. PNG Statement No. 1-R, pp. 4-5; Tr. at 46-47. Further, customers will not pay for the very substantial investment necessary to convert the Auburn Line into a gathering line, and they are not assuming any of the substantial risk of gathering or producing should the project fail or is not profitable. PNG Statement No. 1-R, pp. 7-10. Therefore, the proposed transaction provides customers with continued safe and reliable service at lower rates and retains

the value of the line as a distribution line, while avoiding the risk associated with investing in converting the line to gathering service.

In PNG's 2010 PGC proceeding at Docket Nos. R-2010-2172928 *et al.*, PNG had been encouraged by the Commission to seek opportunities to utilize Marcellus shale gas supplies. PNG Statement No. 1, p. 18. The proposed transaction will help facilitate the development of the Marcellus Shale gas market in the area, produce many related benefits to the local economy and environment, and will otherwise help constrain the wholesale market price for gas to the ultimate benefit of consumers. PNG Statement No. 1-R, p. 3. Citrus' gas supply is comprised of Marcellus Shale gas produced on and around Procter & Gamble's property. Under current configurations, no gas can be delivered into Tennessee from the Auburn Line. PNG Statement No. 1, p. 5. The proposed transaction provides a means to transport additional Marcellus Shale gas to market, which provides an immediate positive benefit to all gas customers. PNG Statement No. 1-R, pp. 16-17.

The proposed transaction also will have a positive impact on the local economy and the environment. The local economic benefits are several: (1) P&G's plant will benefit from a lower cost source of supply, thus making the plant more competitive; (2) a more competitive P&G plant will benefit P&G's employees and local businesses that supply the plant and the plant's employees; (3) local landowners leasing their land for natural gas production will benefit from royalty revenue for gas produced on their land; and (4) production and related gathering services will be a source of income for production and gathering field workers that otherwise would not be employed in the area. Further, the proposed transaction provides an important environmental benefit because use of the existing Auburn Line for as a gathering line will avoid

the environmental impact of building a second pipeline to bypass the Auburn Line. PNG Statement No. 1, p. 17.

Finally, approval of the PNG-UGIES Agreement as an affiliate interest agreement provides certain additional benefits to customers, the Commission, and the parties. Under the terms of the PNG-UGIES, UGIES is obligated to, among other things, connect and service new customers and sell, exchange, or transport natural gas for PNG in the event of an emergency. Further, in the event that the PNG-UGIES Interconnection Agreement is terminated for any reason, PNG shall have the option to re-acquire such portions of the Auburn Line as PNG may require to assure the continuity of its retail distribution service. PNG Statement No. 1-R, p. 12. Moreover, the Commission will continue to have jurisdiction over the PNG-UGIES Interconnection Agreement “so far as necessary to protect the public interest” and may take remedial action if necessary. 66 Pa.C.S. § 2103.

Based on the foregoing, the proposed transaction, as modified by the Joint Stipulation, will provide important benefits to PNG, its customers, and the Commonwealth. If approved, customers will continue to receive safe and reliable distribution service from the Auburn Line at reduced distribution rates. The value of the Auburn Line as a distribution line will be retained by PNG, while at the same time customers will be insulated from the significant investment risk of converting the line to gathering service. Further, if approved, the proposed transaction, as modified by the Joint Stipulation, will provide long-term benefits to PNG customers and the Commonwealth through the development of Marcellus Shale gas resources.

The parties to the Joint Stipulation have carefully analyzed the proposed transaction and have agreed that, as modified by the terms and conditions of the Joint Stipulation, Commission approval of the transaction is in the public interest. Joint Stipulation ¶ 17. Furthermore,

although OSBA was not a signatory to the Joint Stipulation, OSBA witness Robert D. Knecht concedes that the transaction has merit and provides public interest benefits. OSBA Statement No. 1, p. 11.

For these reasons, the proposed transaction, as modified by the Joint Stipulation, is just, reasonable, and in the public interest. Therefore, the ALJ and Commission should approve the Joint Stipulation.


#### IV. CONCLUSION

The Joint Stipulation is the result of detailed examination of PNG's proposal to transfer the Auburn Line to UGIES. PNG believes that a fair and reasonable compromise has been achieved in this case, as is evident by the fact that the Stipulating Parties have reached agreement on a broad array of issues in this proceeding, as well as by the fact that OSBA, a non-signatory to the Joint Stipulation, agrees that the proposed transfer will provide public interest benefits. PNG fully supports the Joint Stipulation and respectfully requests that Administrative Law Judge Dennis J. Buckley and the Commission expeditiously review and approve the Joint Stipulation in its entirety and without modification.

WHEREFORE, UGI Penn Natural Gas, Inc. respectfully requests that the Honorable Administrative Law Judge Dennis J. Buckley and the Pennsylvania Public Utility Commission approve the Joint Stipulation, including all terms and conditions thereof, and that the Commission enter an order consistent with the Joint Stipulation, approving of the transfer of the Auburn Line, together with its appurtenant facilities and right-of-way, to UGI Energy Services, Inc., and approving the Pipeline Interconnection, Operating and Emergency Services Agreement between UGI Energy Services, Inc. and UGI Penn Natural Gas, Inc.

Respectfully submitted,

Kent D. Murphy (ID # 44793)  
Group Counsel –  
Energy and Regulation  
UGI Corporation  
460 North Gulph Road  
King of Prussia, PA 19406  
Phone: 610-768-3631  
E-mail: murphyke@ugi.com

  
David B. MacGregor (ID # 28804)  
Post & Schell, P.C.  
Four Penn Center  
1600 John F. Kennedy Boulevard  
Philadelphia, PA 19103-2808  
Phone: 215-587-1197  
Fax: 610-774-6726  
E-mail: dmacgregor@postschell.com

Of Counsel:

Post & Schell, P.C.

Date: March 30, 2011

Christopher T. Wright (ID # 203412)  
Post & Schell, P.C.  
17 North Second Street  
12<sup>th</sup> Floor  
Harrisburg, PA 17101-1601  
Phone: 717-731-1970  
Fax: 717-731-1985  
E-mail: cwright@postschell.com

Attorneys for UGI Penn Natural Gas, Inc.