

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

555 Walnut Street, 5th Floor, Forum Place
Harrisburg, Pennsylvania 17101-1923
(717) 783-5048
800-684-6560 (in PA only)

IRWINA. POPOWSKY
Consumer Advocate

FAX (717) 783-7152
consumer@paoca.org

March 31, 2011

Rosemary Chiavetta
Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

RE: Application of UGI Penn Natural Gas, Inc
for Expedited Review and Approval of the
Transfer By Sale of a 9.0 Mile Natural Gas
Pipeline, Appurtenant Facilities and Right of
Way Located in Mehoopany, Pennsylvania,
and a Related Affiliated Interest Agreement
Docket No. A-2010-2213893

Dear Secretary Chiavetta

Enclosed please find the Office of Consumer Advocate's Statement in Support of
Settlement, in the above-referenced proceeding.

Copies have been served as indicated on the enclosed Certificate of Service.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "James A. Mullins".

James A. Mullins
Assistant Consumer Advocate
PA Attorney I.D. # 77066

Enclosures

cc: Honorable Dennis J. Buckley

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Application of UGI Penn Natural Gas, Inc	:	
for Expedited Review and Approval of the	:	
Transfer By Sale of a 9.0 Mile Natural Gas	:	Docket No. A-2010-2213893
Pipeline, Appurtenant Facilities and Right of	:	
Way Located in Mehoopany, Pennsylvania,	:	
and a Related Affiliated Interest Agreement	:	

STATEMENT OF THE
OFFICE OF CONSUMER ADVOCATE
IN SUPPORT OF SETTLEMENT

The Office of Consumer Advocate (OCA), one of the signatory parties to the proposed Joint Stipulation in Settlement (Settlement) resolving all issues among the Pennsylvania Public Utility Commission's Office of Trial Staff (OTS), UGI Penn Natural Gas, Inc. (PNG or Company) and the OCA in the above-captioned proceeding, finds the terms and conditions of the Settlement to be in the public interest for the following reasons:

I. INTRODUCTION

On December 1, 2010, PNG filed an Application with the Pennsylvania Public Utility Commission (PUC or Commission) for expedited review and approval of the transfer by sale of a 9.0 mile natural gas pipeline, appurtenant facilities and right of way located between Auburn and Mehoopany, Pennsylvania to an affiliated company, UGI Energy Services, Inc. (UGIES).¹ PNG requested expedited approval of its Application so that UGIES can begin gathering service on the Auburn Line for Citrus Energy Corporation prior to March 1, 2011. The

¹ UGIES is a wholly owned, second-tier subsidiary of UGI Corporation, but is not a public utility and does not intend to operate the pipeline as a public utility asset.

property to be transferred will include: 1) PNG's interest in the 9-mile pipeline, 2) PNG's interest in an interconnect agreement with PVR Marcellus Gas Gathering, LLC (a non-affiliated entity that owns a gathering line between the Auburn Line and local gas producing wells), and 3) the interconnection facilities associated with the agreement. The property that PNG proposes to transfer is currently used by the Company to transport gas received from Tennessee Gas Pipeline Company and the interconnected gathering system, and to deliver such gas to a Procter and Gamble Paper Products Company (P&G) manufacturing plant. After the transfer, UGIES intends to reverse the flow of the Auburn line, i.e., move gas from production wells *into* the Tennessee Gas Pipeline. This will require a capital investment of \$15 million from UGIES as necessary equipment must be installed in order to accommodate the well production gas supplies.

The Company's filing was assigned to the Office of Administrative Law Judge and was further assigned to Administrative Law Judge Dennis J. Buckley (ALJ Buckley), for investigation and scheduling of hearings to determine whether the Company's Application should be granted.

On January 3, 2010, the OCA filed a Notice of Intervention and Public Statement in this proceeding. A Notice of Appearance and Intervention was filed by the Pennsylvania Office of Small Business Advocate (OSBA) and a Protest was filed by the OTS.

On January 7, 2011, ALJ Buckley held a prehearing conference in this matter. At the prehearing conference, a procedural schedule was established. In accordance with the procedural schedule, the OCA submitted the Direct Testimony of Jerome D. Mierzwa on February 18, 2011 and the Surrebuttal Testimony of Mr. Mierzwa on March 10, 2011. That testimony set forth the OCA's concerns regarding: 1) the lack of a proposal to downwardly adjust distribution rates to reflect the lower revenue requirement which PNG will realize from

the transfer of the Auburn Line to UGIES, 2) the lack of protections to ensure that costs to PNG ratepayers will not increase as a result of the transaction, and 3) the lack of an existing purchased gas agreement to secure supply for PNG's retail customers that are currently served from the Auburn Line.

Settlement discussions were ongoing during this period of time and resulted in the proposed Settlement which resolved the issues raised by the OCA. For the reasons set forth below, the OCA submits that the Settlement is in the public interest.

II. TERMS AND CONDITIONS OF THE SETTLEMENT

The following represents the terms of the Settlement that directly address the OCA's outstanding concerns in this case. The OCA expects that the other signatory parties will address those areas of the Settlement that apply to their issues.

Rate Adjustment

Presently, the Auburn line is included in the rate base of PNG. Therefore, the Company is receiving a return of and a return on its investment in this property from ratepayers. However, once the line is transferred out of PNG's rate base at net book value, PNG's revenue requirement will be reduced and PNG will no longer be entitled to a return of and a return on the Auburn line.

The Company determined that the expected annual savings to PNG would be \$153,617. However, these savings were offset in part by an annual fee of \$60,000 that PNG agreed to pay to UGIES in exchange for UGIES' obligation to provide interconnection service to PNG under the PNG-UGIES Interconnection Agreement. The net expected annual savings to PNG amounts to approximately \$94,000 (\$153,617 minus \$60,000). In his Direct Testimony, OCA witness Mierzwa explained that since the proposed transaction was initiated by the

Company and is a one-time, non-recurring transaction, distribution rates to the Company's customers should be adjusted now to reflect the lower revenue requirement, rather than at the time of PNG's next base rate case. Alternatively, Mr. Mierzwa asserted that these cost savings should be deferred, accumulated and then reflected in the Company's next rate case. Mr. Mierzwa proposed a rate adjustment due to the fact that the Company states that it will avoid annual costs as a result of the transfer of the Auburn Line. PNG initially indicated that these savings will be reflected in the Company's next base rate case, i.e., the effect of the reduced revenue requirement would not be immediately realized.

The Settlement addresses these cost and annual rate savings by recognizing the savings now in rates. Specifically, the Settlement provides that PNG's rates will be reduced by \$154,000. 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. However, the removal of this fee will not affect or otherwise alter UGIES' obligation to provide interconnection service to PNG under the PNG-UGIES Interconnection Agreement. Further, the Settlement provides that, on the day after the Auburn Line is transferred from PNG to UGIES, PNG will file a tariff supplement with the PUC that reduces the Company's distribution 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. The aggregate amount to be removed from base rates on an annual basis will be \$154,000. The OCA submits that these provisions are in the public interest and will result in an immediate reduction in distribution rates upon consummation of the transaction to reflect the removal of the cost of the Auburn line from PNG's rates.

Cost Protection

In his Direct Testimony, Mr. Mierzwa also raised a concern that the Interconnection Agreement between PNG and UGIES does not include a term or termination date. However, the Interconnection Agreement does provide both entities with a number of options to terminate the Interconnection Agreement and return the assets to PNG. Mr. Mierzwa stated that, if the Interconnection Agreement is terminated, PNG's ratepayers could experience additional costs. Specifically, Mr. Mierzwa testified:

Under Article VIII of the Interconnect Agreement, if UGIES defaults on its obligation, PNG has the contractual right to reacquire possession and ownership of the Auburn Line at the prevailing net book value. This book value could be substantially higher than the value of the facilities which are proposed to be transferred to UGIES in the Company's application.

OCA St. No. 1 at 6. The book value could increase from the present value due to the fact that UGIES intends to incur \$15 million in capital improvements to the line in order to operate it for the purposes intended by UGIES. Mr. Mierzwa, therefore, recommended that the Commission condition approval of PNG's application to ensure that costs to ratepayers will not increase as a result of termination of the Interconnect Agreement. As set forth below, the Settlement adequately addresses this issue.

The Settlement provides that the PNG-UGIES Interconnection Agreement will be revised to provide for the reversion of ownership of the subject pipeline 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, i.e., the Interconnection Agreement ceases to exist. Further, 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, and in no event will

exceed the original transfer price of \$239,464. Finally, in the event of such reversion of ownership, PNG will 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. The OCA submits that these Settlement provisions provide necessary protections to PNG ratepayers should the Interconnection Agreement terminate in the future.

Purchase Gas Agreement

In his Direct Testimony, Mr. Mierzwa raised a concern regarding the lack of a finalized gas purchase agreement between Citrus and PNG. The Settlement does not address this issue directly. However, the Company has acknowledged in its testimony that, by Pennsylvania statute, the costs resulting from the eventual gas purchase agreement are subject to future review--and possible disallowance-- in the Company's annual purchased gas cost proceedings. PNG St. No 1-R at 19-20. The OCA will address the reasonableness of these costs in the applicable Section 1307(f) proceeding.

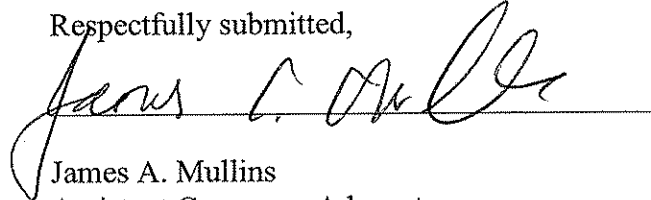
Safety Inspections

As to pipeline safety, the Settlement provides that PNG and UGIES agree that the Commission may continue to conduct safety inspections of the Auburn Line after the transfer of ownership. The OCA submits that this provision is in the public interest and satisfies the OCA's concern as to continued safety of the pipeline.

III. CONCLUSION

For the foregoing reasons, the Office of Consumer Advocate submits that the terms and conditions of the Settlement are in the public interest and therefore, should be approved.

Respectfully submitted,



James A. Mullins
Assistant Consumer Advocate
PA Attorney I.D. # 77066
E-Mail: JMullins@paoca.org

Tanya J. McCloskey
Senior Assistant Consumer Advocate
PA Attorney I.D. # 50044
E-Mail: TMcCloskey@paoca.org

Counsel for:
Irwin A. Popowsky
Consumer Advocate

Office of Consumer Advocate
555 Walnut Street 5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
Fax: (717) 783-7152

Date: March 30, 2011

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CERTIFICATE OF SERVICE

Application of UGI Penn Natural Gas, Inc :
for Expedited Review and Approval of the :
Transfer By Sale of a 9.0 Mile Natural Gas : Docket No. A-2010-2213893
Pipeline, Appurtenant Facilities and Right of :
Way Located in Mehoopany, Pennsylvania, :
and a Related Affiliated Interest Agreement :

I hereby certify that I have this day served a true copy of the foregoing document, the Office of Consumer Advocate's Statement in Support of Settlement, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code Section 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 31st day of March 2011.

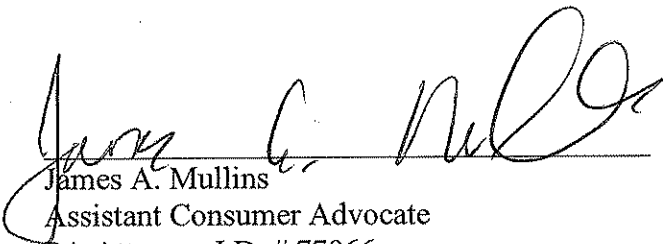
SERVICE BY E-MAIL and INTEROFFICE MAIL

Charles Daniel Shields, Esquire
Office of Trial Staff
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

SERVICE BY E-MAIL and FIRST CLASS MAIL

Kent D. Murphy
Senior Counsel
UGI Corporation
460 North Gulph Road
King of Prussia, PA 19406
Counsel for: *UGI Penn Natural Gas, Inc*

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



James A. Mullins
Assistant Consumer Advocate
PA Attorney I.D. # 77066
E-Mail: JMullins@paoca.org

Tanya J. McCloskey
Senior Assistant Consumer Advocate
PA Attorney I.D. # 50044
E-Mail: TMcCloskey@paoca.org

Counsel for
Office of Consumer Advocate
555 Walnut Street
5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
Fax: (717) 783-7152

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